Capital spending in public services

Fixing how the government invests in the NHS, schools and prisons

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About this report

This report explores capital spending in hospitals, schools and prisons. It examines the current state of capital in those services and how decisions are made over how to invest. It makes recommendations for how the next government can invest more effectively in public services.

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Summary

Crumbling buildings, poor IT and a lack of suitable equipment are undermining the performance of many public services. Hospitals are struggling with poorly maintained buildings, outdated IT and a lack of both beds and diagnostic equipment. Prisons are overcrowded, with hundreds of uninhabitable cells the result of years of inadequate maintenance. And hundreds of schools are riddled with reinforced autoclaved aerated concrete (RAAC) and other maintenance issues.

This makes the job of people working in these places harder. It makes the workforce less productive, despite staff numbers being boosted by recent recruitment drives. It has contributed to the public receiving lower quality service than they did at the start of the 2019 parliament, and in many cases far worse than they could have expected in 2010.

Whoever wins the election will face more daunting fiscal and economic circumstances than any new government of recent decades. This means spending public money well – and more effectively than now – will be essential. Top of the list should be improving capital in public services. Better buildings, IT and equipment will mean better, more productive services for citizens.

The problems currently besetting public services have accumulated over many years and are undoubtedly partly due to a lack of spending. But it is not simply a case of *how much* money should be spent but *how* it should be spent. Much more can be done to spend money better. The next government – whether the first Labour government in 14 years or a returned Conservative one – will face a long list of competing demands, from day one. It is vital that it keeps attention on the performance of the country's crisis-struck public services, and ensures the money devoted to capital for them is spent well.

This report seeks to help it do that, by using the performance of three key services – hospitals, schools and prisons – as case studies of wider problems with how the government invests in public services, and what should change.

The UK has spent relatively little on capital for public services

The UK has a long history of investing less in key public services than its peers. Health services, for instance, operate with far fewer beds and units of diagnostic equipment per head of population than in other similar countries.

Capital spending on the three departments we focus on in this report – the Department of Health and Social Care, Department for Education and Ministry of Justice – fared badly during the 2010s: by 2015/16 these departments' capital budgets were down 18%, 17% and 69% respectively relative to 2007/08 in real terms. Since 2015, capital spending has increased overall but public services have fared relatively poorly compared to economic infrastructure (such as roads, railways and flood defences) and R&D: it took until 2019/20 for annual spending levels to recover in real terms in justice and health, and capital spending for education remains 17% lower in real terms than it was in 2007/08.

In the face of these constrained budgets, the condition of hospitals, prisons and schools has deteriorated, and the estates and equipment (particularly in hospitals and prisons) have not been expanded and updated sufficiently to keep pace with growing and changing demand. Prisons are now at breaking point.

This historically and internationally low spending has mainly been the result of active choices by ministers about how much money to allocate to these services. But it has been exacerbated by decisions made to reallocate capital funding to plug holes in day-to-day budgets. For example, in 2023/24, both DHSC and DfE used 4% of their capital budgets to meet the costs of higher-than-anticipated pay settlements.

Capital spending has not been used effectively

Even what money has been allocated has not always been spent well, or even in full. Frequent underspends on capital budgets and a tendency to rush money out of the door in the last month of the financial year suggest that money may not be spent as effectively as it could be. Between 2010/11 and 2022/23, DHSC had a cumulative CDEL[*] underspend of £6.7 billion (7.9% of its CDEL budget), DfE £3.4bn (4.9%) and the MoJ £550 million (6.8%).

Departments also seem to spend a disproportionately large fraction of their annual budgets in the final month of each financial year. In 2022/23, DHSC spent nearly a third of its budget in March, and MoJ 24%, compared to the 8% that would be expected if spending was spread evenly throughout the year.

While there are many strengths of the current processes for allocating and spending capital budgets, we find there are also several important problems:

- **Public services have an inadequate understanding of their current capital stock and future needs.** Managing estates effectively requires an in-depth understanding of both the current state of buildings and equipment and how demands for them are likely to change in future.

- **Politicians tend to be attracted to centrally dictated, big new projects over maintaining existing assets or investing in smaller local projects.** Politicians have also had a tendency to change course on investment, with big increases followed by sharp cutbacks. This has made it harder, more expensive and created delays for departments and their delivery bodies to deliver projects, especially when working with the private sector.

* Capital departmental expenditure limit.

- **Spending reviews do not always lead to an effective allocation of money.** There can be a focus on projects that deliver benefits quickly, which can disadvantage public services capital. Departments struggle to construct compelling business cases for maintenance: successive reviews have seen departments' allocations either failing to match what they argue they need or providing the minimum possible amount to get big capital programmes off the ground, but with little thought beyond that.

- **Spending controls do not adequately incentivise good management of capital spending.** Incentives facing departmental accounting officers are unbalanced, providing strong incentives not to overspend capital budgets but providing more limited scrutiny of any failure to spend up to intended limits or to maintain the department's assets.

- **Departments' delivery bodies are underused when allocating funds.** Competitive bidding by departments for funding can impose unnecessary costs on delivery bodies while also making little or no use of their front-line knowledge. In some service areas there is also a lack of certainty and flexibility about funding over multiple years and excessive layers of sign-off required from spending departments and the Treasury.

- **The public sector does not work well with the private sector.** The boom and bust cycle of public investment, both at a headline and service level, has undermined the private sector's ability to quickly and efficiently meet public sector capital needs. Furthermore, while the guidance set out in the Cabinet Office's *Construction Playbook* is viewed positively, departments do not always follow it, particularly when it comes to engaging private sector organisations early in project scoping.

Recommendations in brief

To ensure that people working in hospitals, schools and prisons can do so productively and offer citizens a good service, **the next multi-year spending review should provide a more capital-intensive mix of spending** for public services than in recent years. There are no easy choices about how to achieve this. Quickly spending more on capital for public services will require one or more of four things: spending less on economic infrastructure, spending less on day-to-day public service spending, taxing more or borrowing more. None of these is attractive to the main political parties.

But it is vital that the new government takes a comprehensive look at spending and taxation early on to ensure that the choices made deliver most effectively on its priorities. The first multi-year spending review is the key moment when this should happen.

Prioritising spending – and choosing the right projects

The government should take a different approach to the next multi-year spending review:

- **The government must set out clear objectives** to help guide decisions about how much capital spending there should be and how it should be allocated.

- **The chancellor should set capital spending plans for at least five years, with these plans reviewed after three years.** Where possible – for example, where there are politically uncontentious and easy to predict longer term capital needs – the chancellor should provide even longer term funding certainty.

- **The Treasury should provide additional guidance and support to departments and arm's-length bodies to help them produce strong business cases for maintenance.** To support this, ministers should consent to the Treasury publishing the supporting material submitted for all successful capital spending bids at each spending review to help departments understand what makes for a strong spending review submission.

Departments should develop a long-term estates and equipment plan for each service, based on clearly stated assumptions and modelling. These plans should form the basis for negotiations and spending settlements at spending reviews and – following the example of the 2023 NHS Long Term Workforce Plan – should be published to improve the transparency of analysis and decision making.

Incentivising maintenance

- Each department's settlement at future spending reviews should make clear **how the spending allocation received compares to what the department estimated to be required to properly maintain the existing capital stock**. If there is a shortfall, each department should set out publicly what the impact of this is expected to be and how it will prioritise the allocation of funding to mitigate the impacts.

- To counteract the political incentive to favour new build over maintenance, **the Treasury should update its *Managing Public Money* guidance to make clear that accounting officers should ask for a ministerial direction if they believe that a decision not to maintain assets reflects poor value for public money in the longer term**.

- **Departmental select committees should regularly question permanent secretaries and ministers on their long-term estates and equipment plans.** This scrutiny should include asking: how current funding allocations are expected to stack up against those plans – and, if they are inadequate, how the department plans to deal with this; and how far the department is maintaining existing assets in adequate condition.

Working with the private sector

- Given the long timescales for many capital projects and the need to provide some certainty to private contractors to develop their workforces and supply chains, certainty on future capital spending plans is key. In areas of public services where there is a clear ongoing need for regular investment, like school and hospital buildings, the chancellor should **commit to commissioning a certain base level of projects over a period of at least a decade** on a rolling basis.

- **Departments should follow *The Construction Playbook* more closely.**

- The Treasury (in particular, through the Infrastructure and Projects Authority) should **champion standardised building design wherever possible**, to make the most of modern methods of construction to deliver time and cost savings.

Departments' management of capital spending

- **Ministers should consent to the publication of final business cases for all approved capital projects and programmes.** The government has previously committed to publishing the business cases for all approved major projects, but none has yet been forthcoming. Publishing these will help others, including parliamentary select committees, to better hold senior officials and ministers to account for project delivery.

- **Spending departments should review the use of central allocation and competitive bidding for capital projects** – balancing the need for national co-ordination and prioritisation against the benefits of greater local insight. Where used, **departments should provide clear criteria in advance of bids, and clear feedback on unsuccessful bids**, to help organisations plan effectively. In some cases, this might also include providing additional funding and expert capacity to ensure delivery bodies can develop bids well.

- **For integrated care boards, larger multi-academy trusts and local authorities, departments should set out formula-determined funding allocations that cover the full length of spending reviews**, rather than offering these bodies only single-year settlements. For other funding pots that are available to delivery organisations, departments should also provide allocations for all years covered by the current spending review.

- To rebalance scrutiny of spending away from an excessive focus on avoiding overspends towards a more balanced approach to ensuring that departments effectively allocate their budgets, **departmental select committees should ask permanent secretaries and ministers to account for any significant underspends against planned budgets** in the same way that they do for overspends. Committees should also challenge departments to demonstrate they have achieved value for money if a large fraction of spending is done towards the end of the financial year.

Scope of the report

This report is based on interviews with more than 40 people involved in the process of identifying funding needs, setting spending envelopes, allocating funding and delivering projects.

Chapter 1 sets out the level of capital spending in recent years, the evidence on the state of public service assets and how this is affecting service performance, and evidence suggesting that capital budgets are not spent as effectively as they could be. Chapter 2 summarises how capital budgets are managed in each of the three departments we examine in this report. Chapter 3 describes what works well – and what does not – in how capital budgets are currently spent. Chapter 4 draws out our recommendations for improvement.

1. Problems with the public sector estate

Poor quality buildings and equipment are hindering the performance of public services

Despite higher spending and recruitment of more staff in recent years, many public services are still underperforming. The Institute for Government's research shows that this is, at least in part, due to staff having to work in crumbling buildings, with inadequate IT and other equipment.[1,2]

In hospitals, a growing backlog of maintenance, poor IT and a lack of diagnostic equipment and beds is preventing staff from delivering as much as they could for patients.[3,4] Examples of this are many and often extreme. In Princess Alexandra's Hospital in Harlow a collapsed ceiling put an intensive care ward out of action; Stepping Hill Hospital in Stockport had to halve the number of appointments it could offer after ceilings caved in.[5] Others have been caught in the RAAC scandal, meaning some buildings are at risk of collapse.[6] Equipment is also being operated beyond its planned life: a linear particle accelerator used for treating cancer at the Kent and Canterbury Hospital is already at risk of failure and another machine needs replacing this year.[7]

There also has not been enough capital investment in prisons to keep existing sites in adequate condition or to expand the number of prison places in line with the growing prison population. Problems with planning have also delayed building new prisons.[8] Both HMP Dartmoor[9] and HMP Winchester[10] have had to stop using some cells because they have become uninhabitable – a total of 1,730 prison cells were taken permanently out of use across the prison estate between 2009/10 and 2019/20, for varying reasons.[11] The kitchen at HMP Pentonville had to be closed because it was infested with rats.[12] It is then perhaps not surprising that less than half of prison officers believe their physical working conditions are adequate.[13]

But most affected are the inmates themselves. The poor quality of prison buildings adversely affects prisoners' living conditions and can make it impossible to provide them with appropriate education and rehabilitation programmes that help prepare them for release and reduce reoffending.[14]

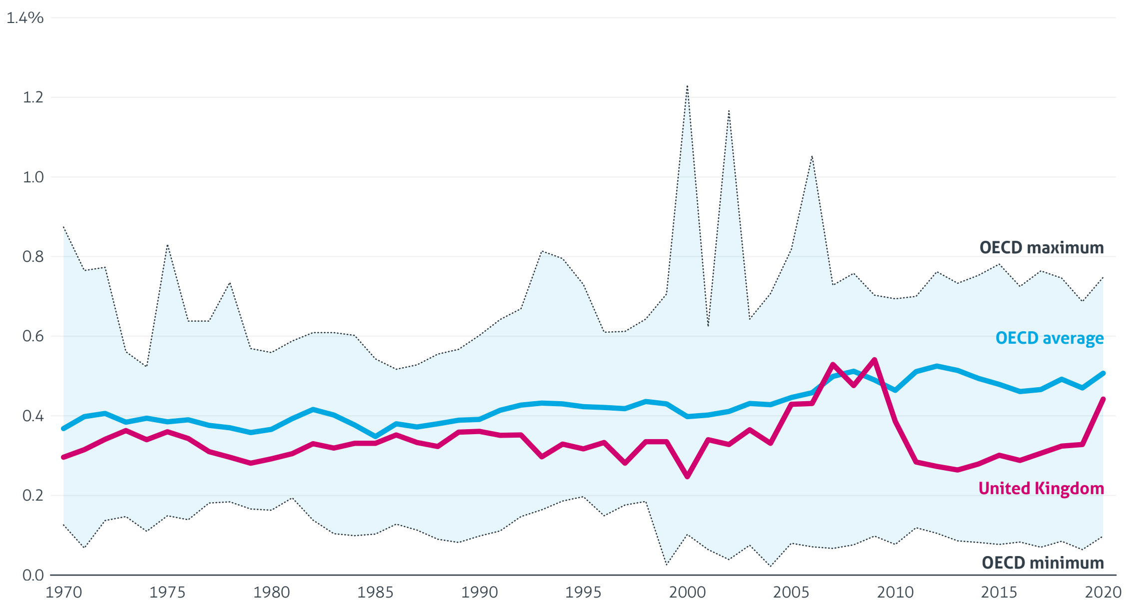
The condition of the school estate is also deteriorating.[15] Just days before school restarted in September 2023, more than 100 schools in England had to close buildings because of a risk of collapse after concerns were raised about RAAC.[16] Recent reports have revealed 12% of teachers report classrooms in their schools are not used because of their poor condition[17] and more than half (57%) consider that the condition of schools is negatively affecting pupils' learning.[18]

Around 700,000 (or 8% of) pupils are learning in a school believed to require major rebuilding or refurbishment, including ones with safety issues.[19] There is evidence of a general deterioration of school capital assets, and DfE considers that poor quality school buildings have a negative impact on pupil attainment and teacher retention, including international evidence that environmental factors like heat and sound affect learning.[20]

The UK government has spent relatively little on capital for public services

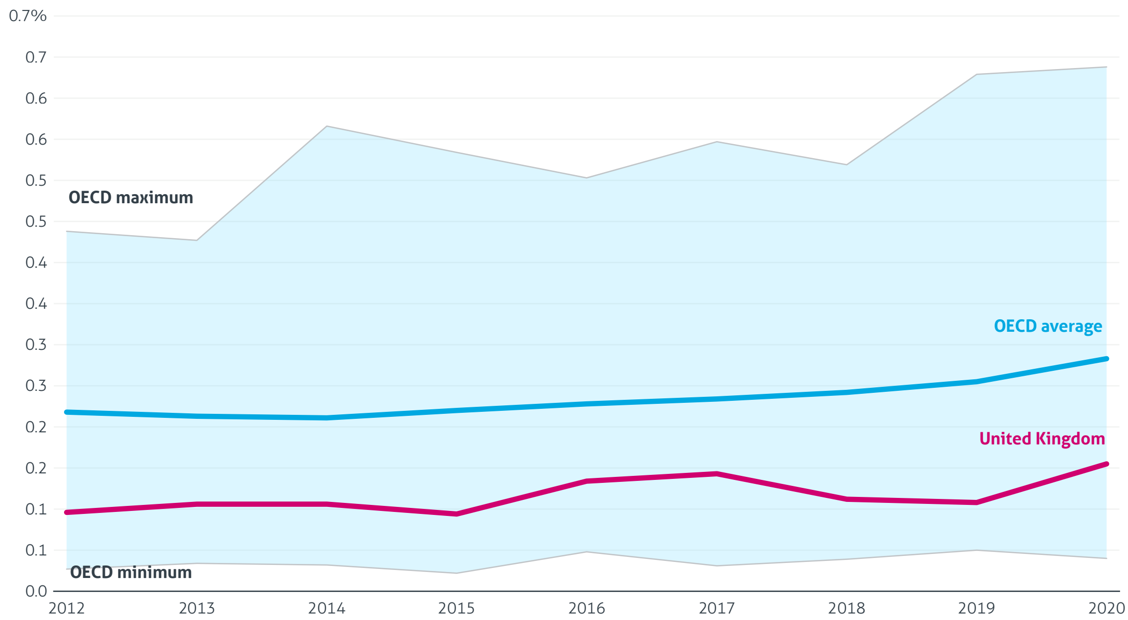
One of the factors contributing to the poor quality of public services capital assets is simple: UK governments' habit of limited capital spending. The UK has a long history of investing less in key public services than other similar countries. Looking at total investment in health services, over the last 50 years there have been only two years (2007 and 2009) in which the UK spent more on capital for health care than the OECD average, as Figure 1 shows. The UK has also consistently spent a lower-than-average proportion of GDP on capital for education, as Figure 2 shows (although data is only available back to 2012). The UK has more often been above the OECD average for investment in prisons, as Figure 3 shows, although this partly reflects the UK's higher-than-average incarceration rate and it was below average throughout the 2010s.

Figure 1 **Government capital expenditure in health care by OECD country, % of GDP, 1970–2020**



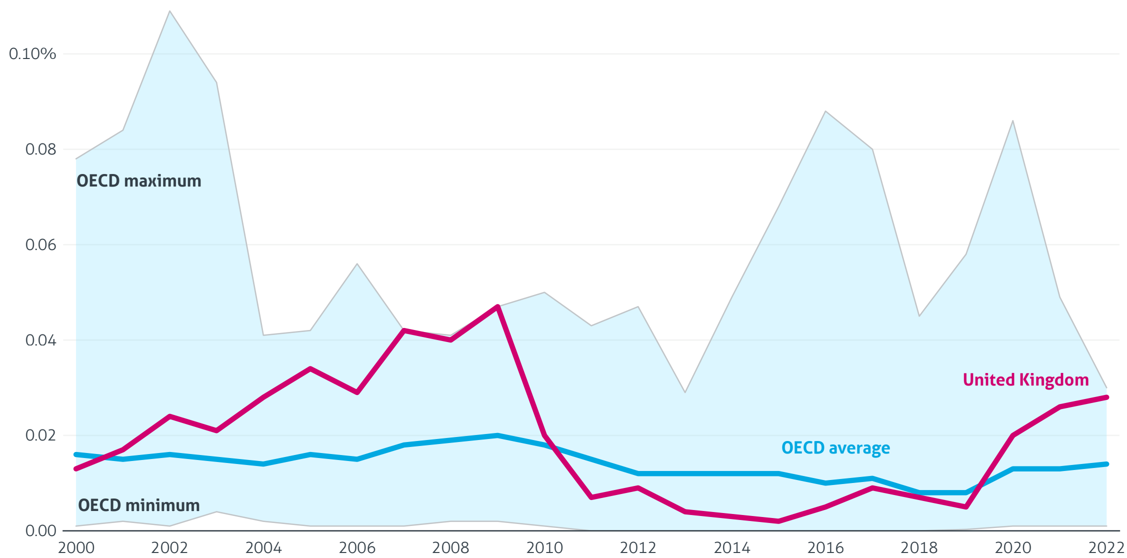
Source: Institute for Government analysis of OECD, 'Gross fixed capital formation in the health care system', 2022 and OECD, 'Gross domestic product (GDP)', 2022. Notes: The average is weighted by the size of the country's GDP. When a country has not data for a particular year, it is excluded from the analysis. Adapted from Health Foundation analysis.

Figure 2 **Government capital expenditure on government-supported education by OECD country, % of GDP, 2012–2020**



Source: Institute for Government analysis of OECD, 'Capital and total current expenditure on education', and OECD, 'Annual GDP and consumption per capital, US $, current prices, current PPPs', 2024. Notes: The OECD average is weighted by GDP. When a country has not data for a particular year, it is excluded from the analysis.

Figure 3 **Government capital expenditure on prisons by OECD country, % of GDP, 2012–2022**

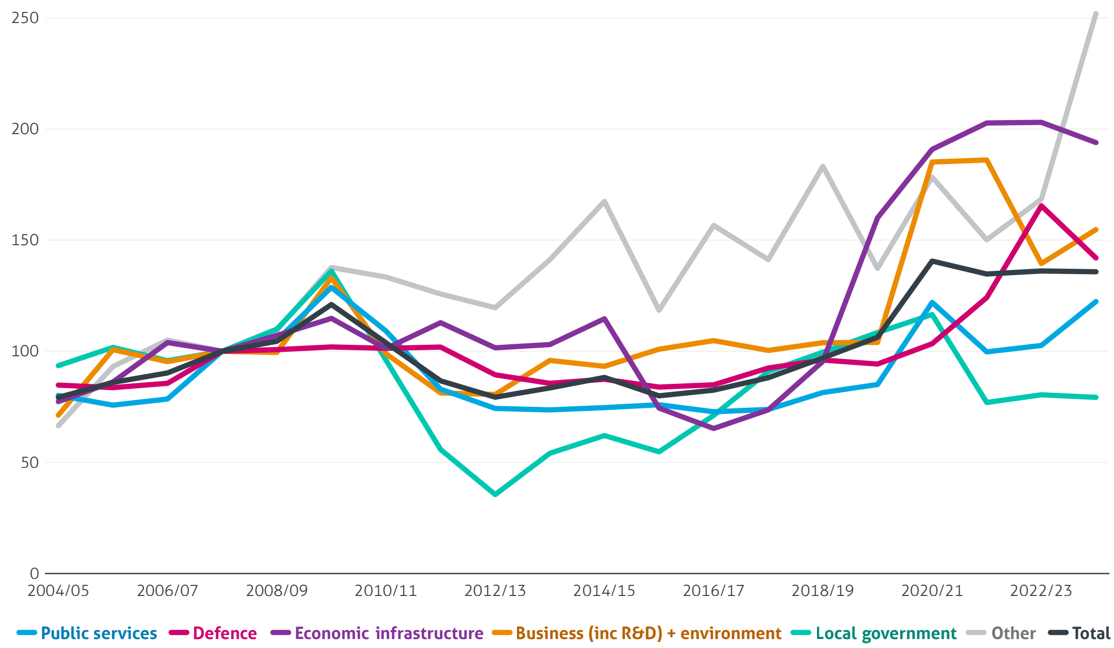


Source: Institute for Government analysis of OECD, 'Annual government expenditure by function (COFOG) – prisons', 2024; OECD, 'Annual GDP and components', 2024; OECD, 'Annual GDP and consumption per capita, US $, current prices, current PPPs'. Notes: The OECD average is weighted by GDP. When a country has not data for a particular year, it is excluded from the analysis.

As Figure 4 shows, public investment has been volatile over the past 20 years. It increased quickly, from a low base, during the 2000s before being cut back substantially from 2010 to 2015. It only returned to 2007/08 levels in 2019/20.* In recent years it has increased sharply and is now 35% above 2007/08 levels in real terms. As recent analysis from the Institute for Fiscal Studies has shown, this spending volatility has translated into volatility for individual services, such as schools.[21]

However, the cuts and subsequent increases have not been shared equally across areas. Over the period since the financial crisis as a whole, investment in economic infrastructure, R&D and energy have outstripped the average, while public services have fared less well. In 2023/24, public services capital spending was only 22% higher in real terms than 2007/08, having been lower than 2007/08 levels for most of the intervening period. It accounted for around 25% of capital departmental spending in the mid-2000s, fell to below 20% during the mid-2010s and now stands at a little over 20% of the total.

Figure 4 **Capital departmental expenditure limits in different types of department, real terms (2007/08=100)**

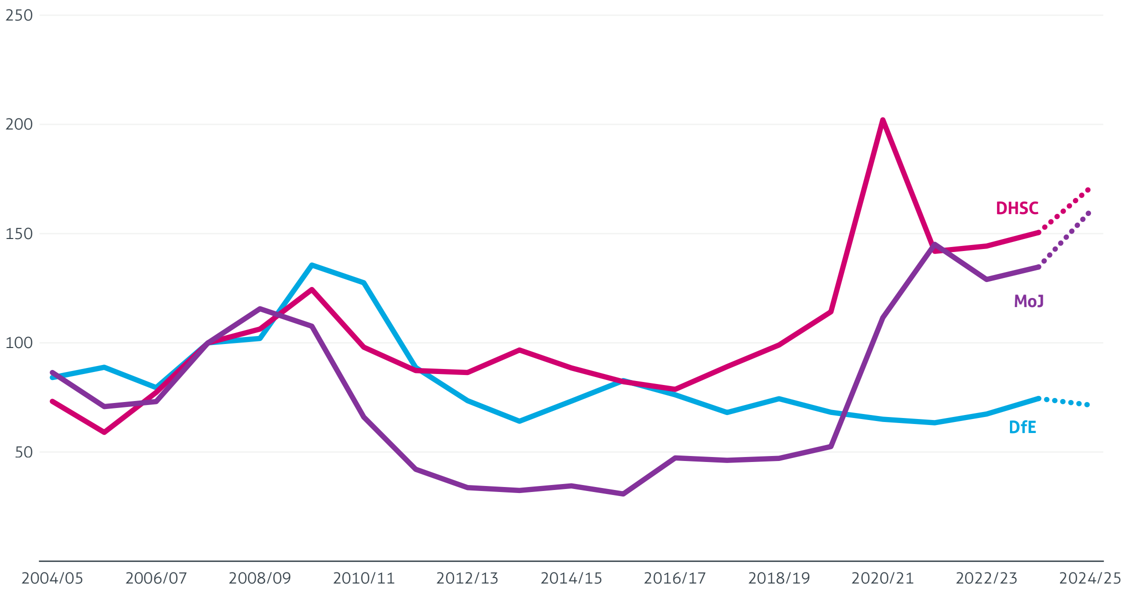


Source: Institute for Government analysis of HM Treasury, Public Expenditure Statistical Analyses, 2009–2023
Notes: Public services includes DHSC, DfE, MoJ and Home Office. Defence includes MoD and the Single Intelligence Account. Economic infrastructure includes DfT and DCMS. Business and environment includes BIS, DECC, BEIS, DSIT, DESNZ, DBT. Local government includes DLUHC and its predecessors. Other includes FCDO, Cabinet Office and Defra.

* 2007/08 is the last pre-financial crisis year for which figures are not inflated by actions taken to mitigate the recession by accelerating capital spending.

Capital spending on the three departments we focus on in this report fared badly during the 2010s. By 2015/16, they all had lower real-terms capital spending than in 2007/08, with the MoJ losing more than half its funding in real terms (as Figure 5 shows). Capital spending was cut more sharply than day-to-day spending during this period for all three services. The 2015 spending review was more generous for capital than the 2010 review had been but it took until 2019/20 for annual spending levels to recover in real terms in justice and health. Capital spending for education remains 17% lower in real terms than in 2007/08 (as Figure 5 shows). The three-year average of schools capital spending up to 2022/23 was lower than any three-year period since at least 2004/05.[22]

Figure 5 **Capital spending by department, 2004/05–2024/25 (real terms, 2007/08=100)**

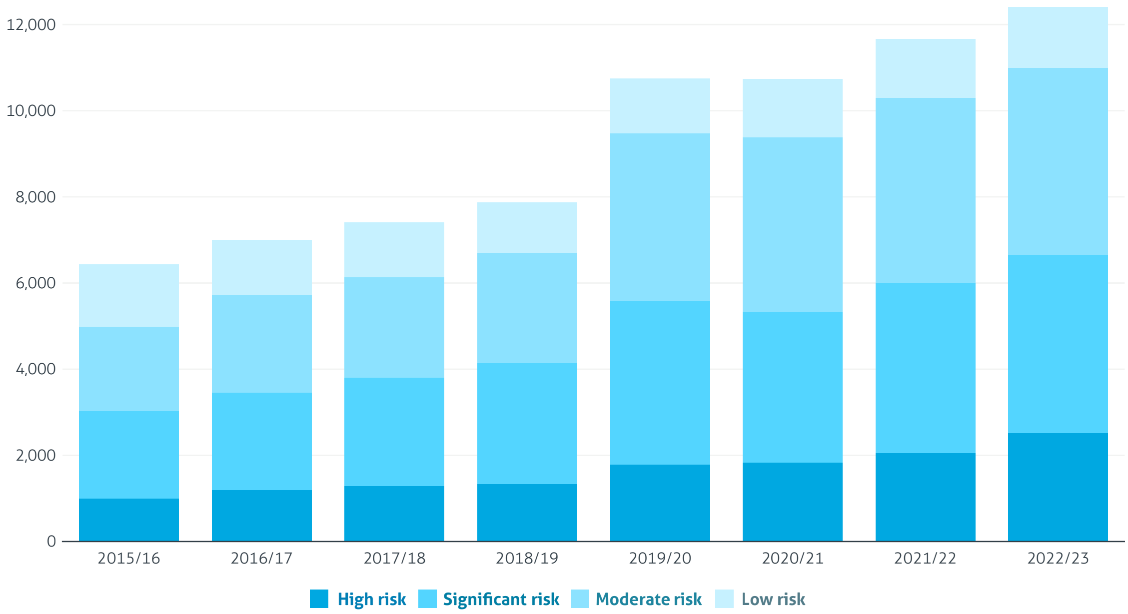


Source: Institute for Government analysis of HM Treasury, Public Expenditure Statistical Analyses, 2009–2023 and HM Treasury, Spring Budget 2024, 2024. Notes: Annual changes in CDEL have been used to construct a time series that accounts for changes in departmental responsibilities.

Although capital spending for DHSC and MoJ has started to increase since 2015, that has not been sufficient to restore the condition of the estate to what it was at the start of the 2010s. Figure 6 shows the growing maintenance backlog in the NHS.[*] Many schools and prisons are also in a poor state of repair. The latest school conditions survey suggests that £10.4bn of maintenance work was required in 2020/21,[23] up from £6.7bn in 2015/16 (although the methods are not fully comparable).[24] HM Prison and Probation Service (HMPPS) estimates that £1.3bn of maintenance work was required in prisons in 2022/23, up from £900m in 2019/20.[25]

* Methods for measuring maintenance backlogs have evolved over time as NHS Digital and NHS Improvement have conducted ongoing quality assurance work on ERIC returns since 2016/17 to improve data quality. An audit in 2020/21 in particular identified an inconsistent approach and methodology among trusts for backlog data capture. (Mental Health Design and Build, 'Latest ERIC returns show rise in estate running and backlog costs', 15 October 2021, retrieved 4 June 2024, www.mentalhealthdesignandbuild.com/story/36776/latest-eric-returns-show-rises-in-estate-running-and-backlog-costs)

Figure 6 **NHS estate maintenance backlog (£m, 2023/24 prices)**



Source: Institute for Government analysis of NHS England Digital, 'Estates Returns Information Collection', 2016 to 2023

International comparisons offer another measure of the inadequacy of capital assets in UK public services. Table 1 shows that the UK has fewer CT and MRI scanners per head of population than most other similar advanced economies; in the case of CT scanners the figure stands at half the OECD average. The government's recent investments in community diagnostic centres (CDCs) will go some way to addressing this shortfall but will still leave the UK with relatively low diagnostic capacity compared to other similar countries. The government reported that the expansion of CDCs is expected to increase MRI capacity in the NHS by 37.9% and CT capacity by 44.7% by March 2025 compared to pre-pandemic levels.[26]

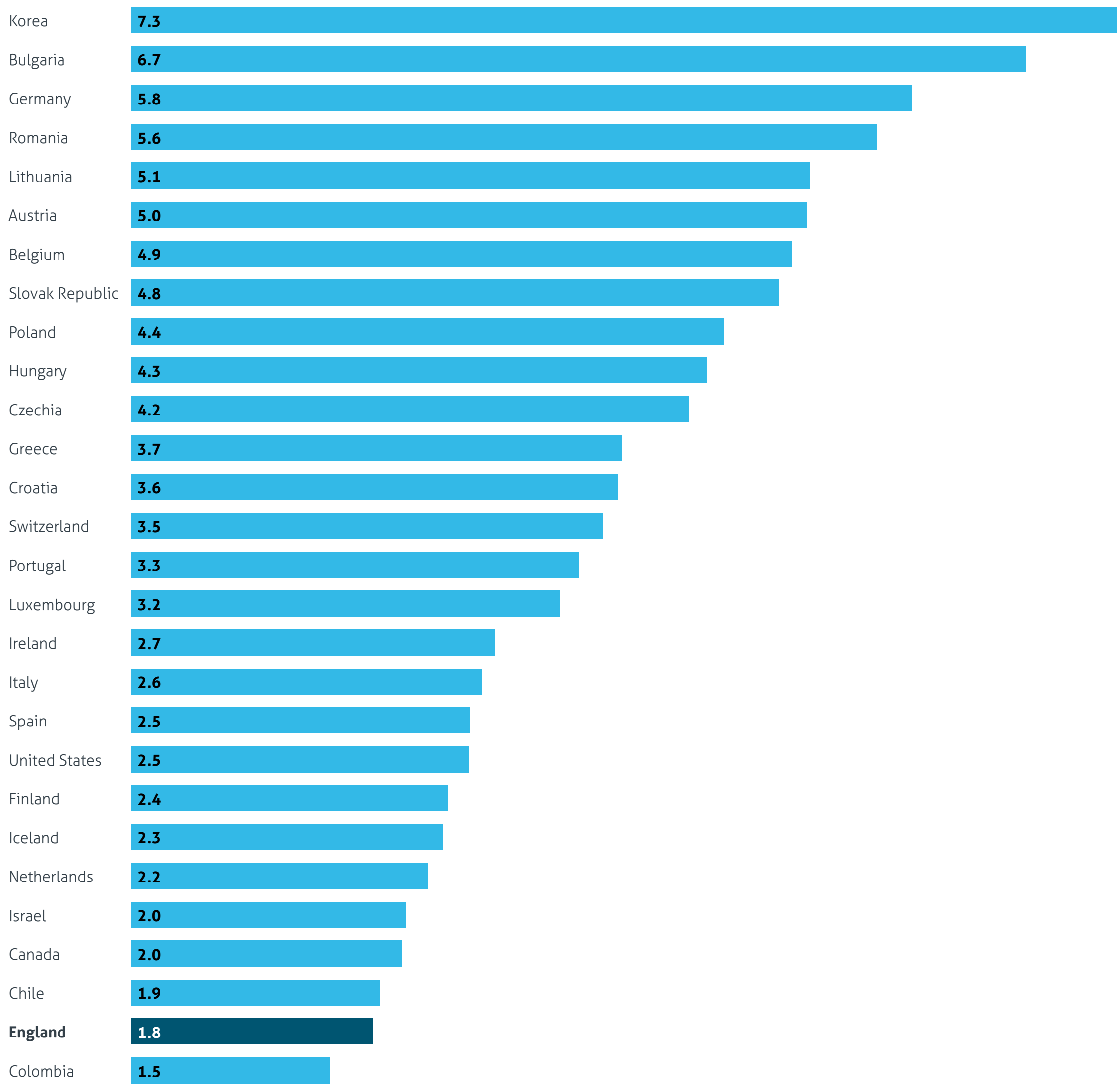
It also has far fewer hospital beds per head of population, as Figure 7 shows. Both have a demonstrable effect on NHS productivity.[27]

Table 1 **Hospital diagnostic equipment per million population, by OECD country, 2021**

	CT scanners	MRI scanners
OECD average	**20.1**	**13.8**
South Korea	32.3	29.6
Italy	28.0	20.1
United States	27.0	17.9
Sweden	23.0	17.2
Luxembourg	21.9	17.2
Germany	19.5	13.1
Spain	19.2	15.9
Estonia	18.8	12.8
Austria	17.5	12.0
Poland	17.3	6.7
Greece	17.0	8.0
Finland	17.0	31.2
Czech Republic	15.2	9.7
France	11.2	7.1
United Kingdom	**10.0**	**8.6**
Israel	8.2	4.6
Mexico	7.3	2.9
Costa Rica	3.3	0.4

Source: Institute for Government analysis of OECD, 'Computed tomography (CT) scanners', 2022 and OECD, 'Magnetic resonance imaging (MRI) units', 2022.

Figure 7 **Acute hospital beds per 1,000 of population, by OECD (2021 or latest year)**

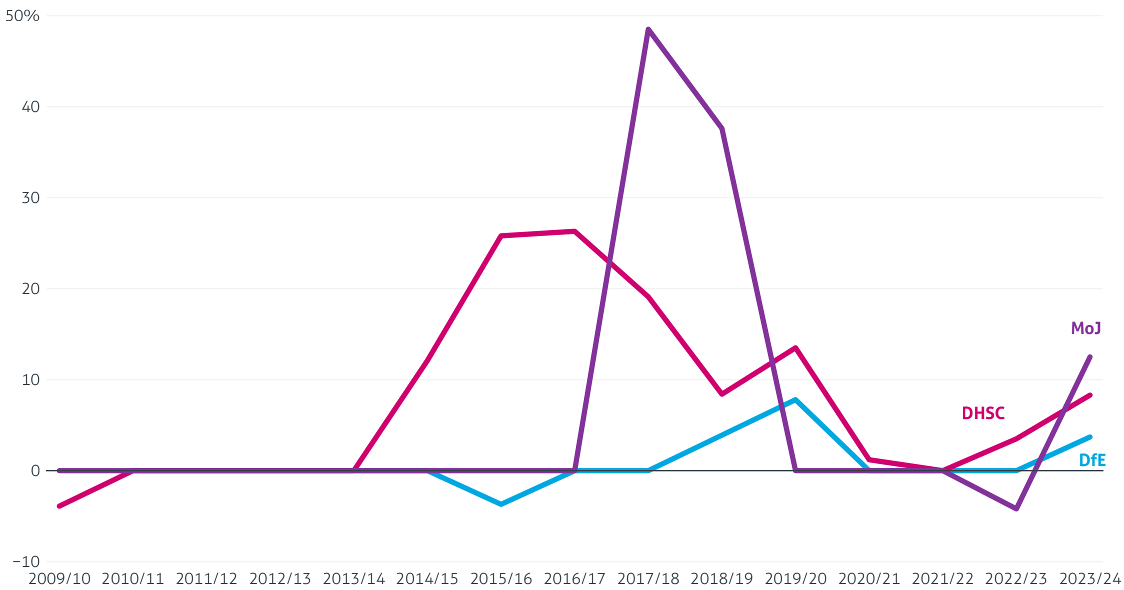


Source: Institute for Government analysis of OECD, 'Acute hospital beds (indicator)', 2024; The King's Fund, 'NHS Hospital Beds numbers', 2021; Office for National Statistics, 'Population and household estimates, England and Wales, Census 2021', 2022. Notes: Figure for England calculated from The King's Fund estimates as OECD does not report acute beds in England.

This persistent low capital spend is the result of choices made by ministers in successive spending reviews. But there have also been times when capital spending has been (even) lower than initially intended because, at the last minute, departments have transferred money from their capital budgets to meet day-to-day costs. This has been done repeatedly since 2010 in DHSC, DfE and MoJ (Figure 8).

Treasury guidance explicitly prohibits this practice – however, departments are allowed to do this with Treasury approval and the Treasury has quite often found it convenient to grant permission to cover shortfalls in revenue allocations. Reallocations were particularly high during the 2015 spending review period as then chancellor George Osborne's day-to-day spending plans proved undeliverable. After several years of less switching, capital underspends have again been used in the last couple of years to fund higher than anticipated pay awards: in 2023/24, DHSC transferred £500m (or 4% of its capital budget) to help cover the cost of pay awards to nurses, while DfE did the same with £250m (4% of its capital budget) to help fund the teachers' pay settlement.

Figure 8 **CDEL to RDEL transfers, % of departmental CDEL, 2009/10–2023/24**



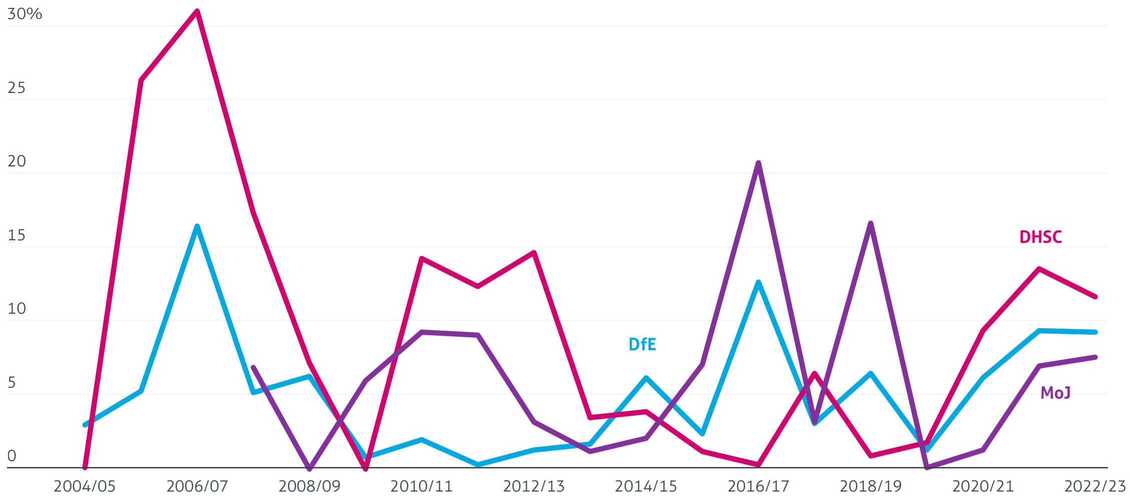
Source: Institute for Government analysis of HM Treasury, 'Public Expenditure Statistical Analyses', 2010–2020; House of Commons Library , 'Revised Government spending plans for 2022/23'; 'Revised Government spending plans for 2023/24'.

What capital budgets are allocated are not used as effectively as they could be

However, it appears that low overall levels of spending are not the only explanation for the poor state of public services capital assets. There are also signs that what money is allocated may not be spent by departments as effectively as it could be.

First, departments regularly *underspend* their planned capital, even though in all areas there are clearly identified needs for further maintenance and new investments. Figure 9 shows the scale of underspending in DHSC, DfE and MoJ over the past 20 years. Between 2010/11 and 2022/23, DHSC had a cumulative CDEL underspend of £6.7bn (7.9% of its CDEL budget), DfE £3.4bn (4.9%) and MoJ £550m (6.8%).

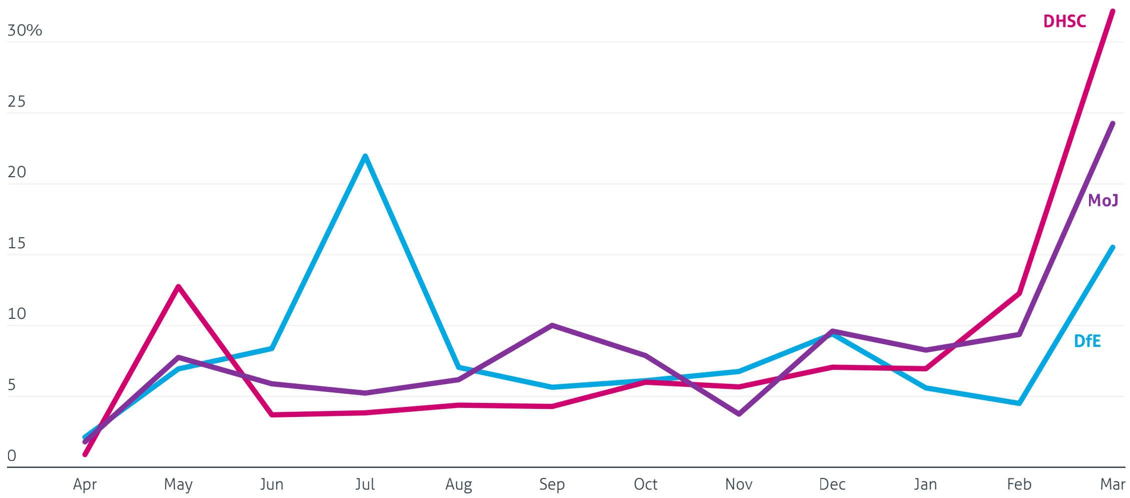
Figure 9 **Percentage of CDEL underspent, 2004/05 to 2022/23**



Source: Institute for Government analysis of HM Treasury, 'Public Expenditure Statistical Analyses', 2005–2023.

Second, departments seem to spend a disproportionately large fraction of their annual budgets in the final month of each financial year. In 2022/23, DHSC spent nearly a third of its budget, and MoJ a quarter, in March – compared to the 8% that would be expected if spending was spread evenly throughout the year.* For DfE, there is a predictable spike in capital spending in July – when 22% of the capital budget was spent as schools carried out works during the school holidays – however, a large fraction (just over 15%) was also spent in March. This 'hockey stick' profile of spending suggests money is rushed out of the door just before the end of the financial year and raises questions about whether departments are achieving good value for money with this spending.

Figure 10 **Proportion of department capital spent by month, 2022/23**



Source: Institute for Government analysis of HM Treasury, 'OSCAR', 2022/23.

* The spike in May for DHSC in 2022/23 is not a pattern repeated in every year, so will have been as a result of a few projects having large expenditure in that month.

2. How capital spending for hospitals, schools and prisons is allocated

Investment in each of the services we look at in this report is principally determined through negotiations between the Treasury and departments at spending reviews. That spending is then allocated to different priorities and delivery bodies by departments and national arms'-length bodies (ALBs) like NHS England and HMPPS. This section outlines the ways in which capital spending decisions are made for each of hospitals, schools and prisons and the respective roles of the Treasury, departments, national arms'-length bodies and local delivery bodies.

How is capital funding allocated by departments to delivery bodies?

Hospitals' capital spending is provided by NHS England, based on a split of the capital envelope between different types of project determined by DHSC; much of this funding is channelled through integrated care boards (ICBs), which in turn decide how to distribute it across hospitals and other care settings within their area.

How capital funding is provided to schools varies by school type. Academies receive capital funding from DfE, through its ALB the Education and Skills Funding Agency (ESFA) and according to rules set by the department; larger multi-academy trusts have a lot of discretion over how money is allocated across their schools. Local authority schools receive funding from their local authorities, which in turn comes from DfE, also through the ESFA; the allocation to specific schools depends in part on rules dictated by the department and in part on choices made by local authorities.

Capital spending for prisons is provided by HMPPS, an executive agency of the MoJ, though the high-level allocation between different types of prison capital spending is determined at spending reviews through negotiations between MoJ and the Treasury.

Within this framework, there are broadly three ways in which capital funding is allocated to front-line organisations. These different mechanisms are used to different extents to fund capital projects in hospitals, schools and prisons.

- Some money is allocated through a **formula** – for example, around half of the money that goes to NHS hospitals is allocated by NHS England through a process that distributes funding across England's 42 integrated care systems (ICSs) based on the previous year's revenue performance, weighted by local population.[1]

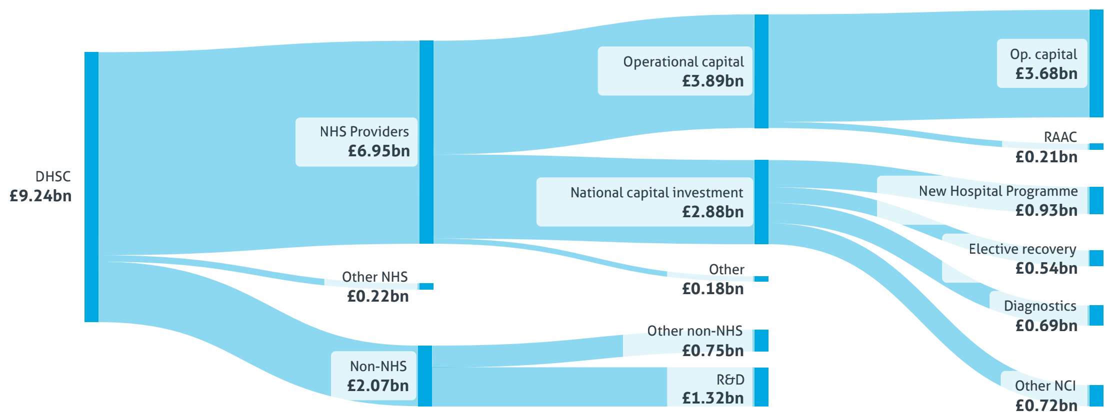
- Some is allocated by **central government** to delivery bodies for projects aligned with central objectives, often (but not always) on the basis of competitive bidding – for example, all of the capital funding allocated by HMPPS to prisons is done on this basis and many schools compete for part of their capital funding.

- The remainder is allocated centrally to **specific projects** that are not delivered by existing delivery bodies – for example, this is the approach taken to building new schools.

Local delivery bodies have the most control over funding allocated through a formula. Other funding pots allocated centrally must be spent on projects aligned with the corresponding central priorities; these are often used for larger investments, which need to be prioritised nationally.

Figures 11–13 show how the capital budgets for DHSC, MoJ and DfE respectively were allocated in 2022/23. We show budgets for one year to provide an indication of how budgets are allocated across different types of projects and through different types of allocation mechanisms. However, the level and composition of capital budgets can vary significantly from year to year, so these figures are only indicative of longer term patterns within the department.

Figure 11 **Composition of the Department of Health and Social Care's capital budget, 2022/23**



Source: Institute for Government calculations using DHSC, 'Annual Report and Accounts 2022/23, 2023.

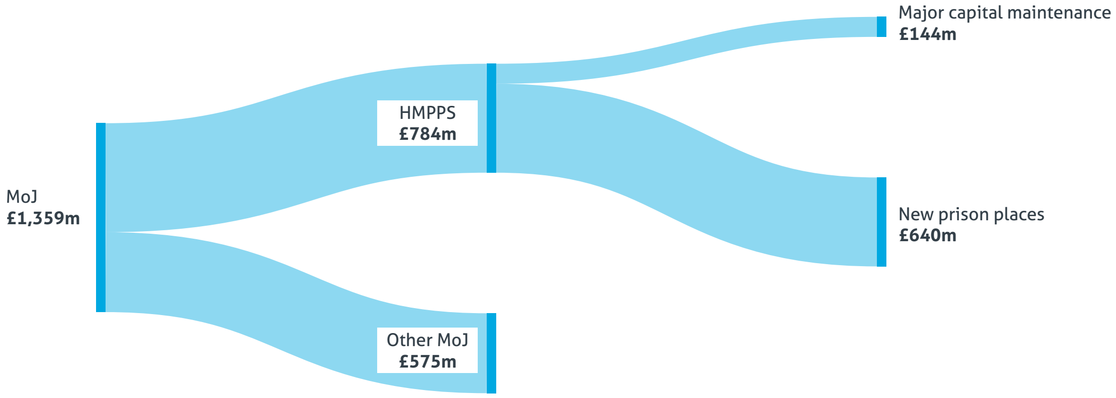
Over half of hospitals' capital spending in 2022/23 was provided through a formula allocation (56%; operational capital in Figure 11). This formula is based on factors such as an estimate of the depreciation of existing assets over the year, and the size of hospitals' maintenance backlog. ICBs have discretion over how this formula funding is allocated between care providers in their area. Additional incentive funding was also made available to NHS trusts that performed particularly well in meeting objectives on revenue budget management and A&E waiting times.[2]

In practice, ICBs do not receive grants for capital investment but a CDEL 'allowance' that providers in the system (principally hospital trusts) can invest, which is consistent with DHSC's overall CDEL limit. This investment is largely paid for from cash already held by trusts, because the revenue grant they receive each year includes an allowance for 'depreciation' – the use of assets they own – which they can save if their budget is otherwise balanced. If they do not have sufficient cash to invest to their prescribed capital limit in a given year, they can apply for additional 'public dividend capital' from DHSC, which attracts a 3.5% annual charge.[3]

The remainder of the capital envelope was allocated to specific delivery bodies either through a competitive bidding process (for example, for new diagnostic treatment centres) or without formal bidding (for example, the New Hospital Programme, NHP) for projects aligned to the department's strategic priorities (national capital investment in Figure 11).

In 2022/23, around two fifths of hospitals' total capital budget was devoted to transformation and additional diagnostic and elective capacity, as opposed to maintenance of existing assets. And most of the cash increase in hospitals' capital funding in recent years has been allocated to the former, while the latter has been largely flat in cash terms. In addition to this capital spending, some maintenance costs are also met from hospitals' revenue spending.

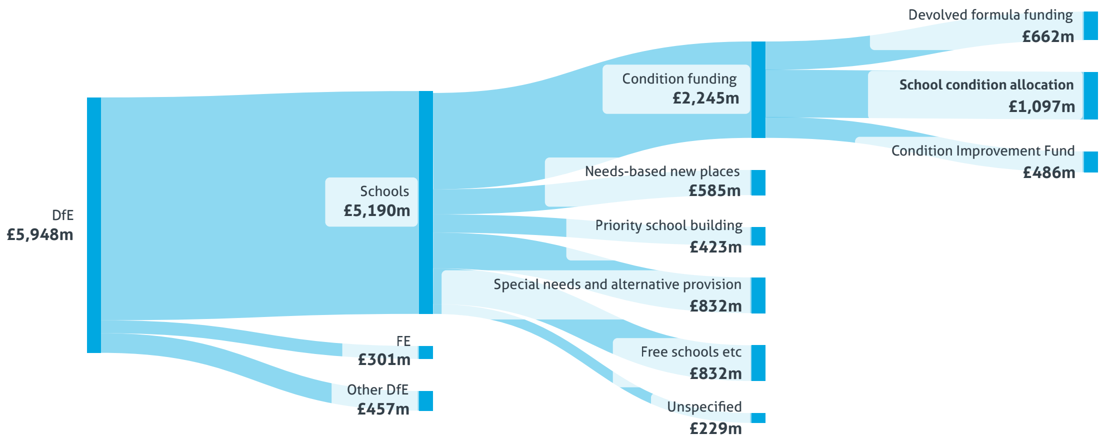
Figure 12 **Composition of the Ministry of Justice's capital budget, 2022/23**



Source: Institute for Government analysis of Ministry of Justice, 'Main estimate memorandum 2023/24' and Ministry of Justice, 'Annual Report and Accounts 2022/23'.

There is no formula allocation of funding to prisons. The vast majority of the capital funding that individual prisons receive is the result of an annual process of competitive bidding to HMPPS. The first stage of this process entails individual prisons submitting bids to their regional group (or, in the case of high-security prisons, women's prisons and young offender institutions, their functional group). Bids are then prioritised by the region/function and whittled down at that level before being submitted to HMPPS, which ultimately decides which projects to fund through a strictly internal process. A small amount is allocated by HMPPS to align with central priorities without any formal bid being submitted by prisons. Less than a fifth of the capital budget for prisons (18%) was spent on maintenance in 2022/23, with the vast majority allocated to the building of new prison places.

Figure 13 **Composition of the Department for Education's capital budget, 2022/23**



Source: Institute for Government analysis of Department for Education, 'Main estimates memorandum 2023/24'.

Of the £5.4bn capital spending that DfE allocated to schools in 2022/23, one third was used for maintaining and improving existing schools, with discretion provided to academy trusts, local authorities and individual schools about how this money was used. The devolved formula capital grant (£217m) goes directly to individual schools based on a formula comprising a fixed sum per school and a variable amount linked to pupil numbers and building condition. The school condition allowance (SCA) uses a formula to allocate money to larger multi-academy trusts, larger voluntary aided school bodies and local-authority-run schools; this formula is based on various factors including the number of pupils, the local circumstances and condition of schools within the academy trust or local authority, and whether they are run on a private finance initiative (PFI) contract.[4] The academy trust, voluntary-aided school body or local authority is responsible for deciding how this money is allocated to projects across the schools within the group. Smaller or standalone academies and voluntary-aided schools are covered by the Condition Improvement Fund. The total amount of funding available through this is determined using the same formula as the SCA; the fund is controlled by the DfE and schools must bid for funding.[5]

Another third of the budget is spent to ensure there are sufficient school places, including special needs and alternative provision, which is allocated by DfE to local authorities where demand is highest, and earmarked for this specific purpose. And the final third of the budget is spent on building new schools and rebuilding existing ones, the free schools programme and other capital spending programmes, for each of which the department decided how this money should be distributed across the country.

What spending controls are imposed by the Treasury?

Central government departments' capital spending limits are usually set at spending reviews. These events, a feature of UK fiscal policy making since 1998, have typically set annual totals for each department for multiple future years. The most recent spending review in October 2021 set capital budgets for three years (2022/23 to 2024/25). The preceding review (in 2020) set budgets for only one year due to the uncertainty around the pandemic, although it provided four-year allocations for hospital building. The 2015 review had set capital budgets for five years.[*]

Spending reviews also earmark sums for specific projects or types of work – for example, the 2020 review announced that £3.7bn would be spent over the four years from 2021/22 to 2024/25 on the New Hospital Programme,[6] and DfE bids separately[7] at spending reviews for funding for rebuilding and for maintenance and repair.

Once these budgets have been set, the Treasury continues to retain some control over how the money is spent, in four principal ways. Departments must get Treasury approval:

- for any individual item of **spending that exceeds their delegated authority limit (DAL)**.[**] These DALs vary between departments and over time and are not systematically published. The Treasury told us that DfE's DAL for capital spending was £10m in 2021/22, £30m in 2022/23 and £100m in 2023/24.[8] It also told us that the MoJ DAL for both capital spending and resource spending is currently £90m.[***] Interviewees reported that the DHSC capital DAL is currently £50m.

- for any spending that is **novel, contentious or repercussive**, regardless of the level of the spending.

- if they want to use money that had been ring-fenced for a particular capital programme for some other purpose and such requests **would not normally be granted**. The same applies if a department wanted to use any part of its capital budget for resource spending but that does not apply in reverse – that is, departments are free to top up their capital budgets from resource if they want to, though this is rare.

- if they want to **move money from one financial year into the next**, through a process known as budget exchange. They must apply for a budget exchange through the supplementary estimates process, which is finalised for the year in February. Departments can apply to move money up to a certain threshold and will be required to provide the Treasury with supporting information to justify the move. In general, this threshold is 4% of the overall CDEL budget for departments with total DEL of less than £2bn, 2% for departments like the MoJ with budgets between £2bn and £14bn, and 1.5% for large departments like DHSC and DfE, with total

* There was also a spending review in 2019. This focused on setting resource budgets for 2020/21, as these had only been set for four years at the 2015 review.

** The logic for DALs is that departments should be able to make small spending decisions without Treasury oversight, but that bigger spending items should be subject to more scrutiny.

*** Email from HM Treasury, May 2024.

DEL of more than £14bn. Additional flexibility is offered for large capital projects, with an annual budget of over £50m. For these projects, departments can apply for permission to carry forward up to 20% of the programme's CDEL budget and can apply to carry this money forward across multiple years. However, they cannot carry money forward beyond the end of the originally agreed project timescale.[9]

What spending controls are imposed by departments?

Delivery bodies are then subject to further controls imposed by their parent departments and relevant ALBs. These vary considerably across the three services we examine in this report and details of these are not published:

- NHS England (and in turn hospitals and ICBs) must get approval from DHSC for any spending on national programmes over £25m (a different, higher limit applies for capital allocated via formula). NHS England allocates multi-year budgets to ICBs, providing them with certainty about what money will be available but restricts them from moving money between years. ICBs in turn provide either single-year or multi-year allocations to individual hospitals and other care settings. Some additional funding is often made available by NHS England within a financial year on condition that an ICB/hospital can spend it before year end. DHSC requires ICBs to seek permission if they want to use resource underspends for capital instead.

- All of prisons' capital spending comes through single-year allocations from HMPPS, with most requiring competitive bidding on the basis of business cases submitted to HMPPS.

- The capital funding that existing schools receive is determined by various formulas, coupled in some cases with competitive bidding processes, as described above. Academy trusts and individual schools are only given one-year capital budgets by the DfE. Schools have some flexibility to delay capital spending to later years: all schools can roll DFC grants over for up to two years, and multi-academy trusts and local authorities can also roll up to 100% of SCA allocations into the next year.[10] CIF grants must be spent in line with the originally agreed plan. Schools can also use any underspending on their resource budgets for capital spending instead. Once schools, academy trusts and local authorities have received capital allocations, there is no further requirement for them to seek DfE approval for individual projects, no matter the size.

3. Problems with how capital spending is deployed

There have been several improvements made to how capital spending is allocated, but there are still areas where substantial improvement is possible. This section highlights the main problems we have identified with how capital spending is allocated and deployed.

The role of politicians

There is no purely objective way of ranking different possible uses of capital investment,* and as such ministers will always play a central role in determining how capital spending is allocated. Comparing some projects against one another is relatively easy if the projects are aiming to achieve similar outcomes – for example, judging whether extra money would be better spent on refurbishing part of an existing hospital, on building a new wing or buying additional equipment. But it is harder to compare projects aiming to achieve very different outcomes. For example, there is no completely objective way of judging the merits of buying new equipment for a hospital (which might have benefits for population health) compared to repairing a run-down prison (which might improve prisoner health and wellbeing and reduce reoffending rates).

There will, therefore, always be an important role for democratically elected politicians in deciding how to allocate scarce resources to capital projects. The role of ministers is particularly crucial in making higher level decisions about how to allocate capital across different service areas, delivering different outcomes; it is possible to make more objective choices, based on high-quality business cases, between different projects that are expected to deliver similar outcomes to one another.

However, interviewees pointed to several ways the actions of ministers have inappropriately and unnecessarily contributed to reducing the value for money achieved from capital spending on public services.

* At the 2010 spending review, Treasury officials compiled a spreadsheet that ranked all capital bids based on their benefit–cost ratio (BCR). This was presented to ministers as a starting point for their prioritisation but ministers ultimately deviated little from this ranking and simply drew a line where the money ran out. However, focusing solely on BCR ignores other important aspects of the business case – including, crucially, the strategic case. There has, therefore, been a move away from this sort of approach in more recent years.

Political priorities can skew allocations away from delivering the best outcomes for the public

Ministers tend to be attracted to big, new building programmes – such as Boris Johnson's commitment to build "40 new hospitals"[1] – rather than more decentralised, locally led projects or spending on maintaining existing assets, which are less exciting for national politicians to announce.

Interviewees raised three concerns about the impact of this tendency. First, this preference for new building biases against allocating money to maintain existing assets, which can offer better value for money than building something from scratch. For example, the National Audit Office (NAO) found that DfE received lower settlements for maintenance than internal analysis suggested was necessary to keep their assets in good condition.[2] This is despite the fact that capital budgets at the 2021 spending review overall were relatively generous and interviewees told us that Treasury officials ranked schools' maintenance as a good value-for-money proposal.

One of the rationales behind the private finance initiative, which was in place up to 2018, was to lock a commitment to maintenance into long-term contracts with the private sector to prevent politicians from expeditiously cutting back on maintenance when money was tight, as they had in the past. Somewhat surprisingly, there seems to be no published systematic evidence on whether these contracts had this desired effect – nor at what cost – but we did find anecdotal evidence to support this.[*]

There might also be other, smaller, projects that would offer better value for money than larger ones. The 2006 Eddington review of transport's contribution to economic growth found that larger projects that went ahead systematically had lower benefit–cost ratios than smaller ones and that smaller projects that unblocked transport pinch-points across existing networks could offer very high returns as enablers of economic growth.[3] Based on his assessment of the evidence, Eddington was sceptical of the ability of major transport projects to transform the economic performance of an advanced economy like the UK, which already has extensive transport networks.

Second, failing to maintain assets in a timely manner can lead to higher costs later on.[4] For example, DfE found that the modelled cost to return buildings to a good standard of repair increased on average by 9% between 2012 and 2014, while it fell among a subset of schools that had received additional funding for maintenance.[5] In recent years, this general problem has been exacerbated by rapid growth in construction costs (for both labour and materials). That inflation, coupled with the fact the Treasury chose not to revise cash spending plans, has meant that delaying work by even a few months resulted in much higher costs than originally anticipated. Construction prices increased by almost 20% between 2019/20 and 2022/23, around twice the rate of economy-wide inflation.[6]

* A 2010 National Audit Office (NAO) report on hospital PFI contracts found that PFI hospitals spent more on maintenance than non-PFI hospitals but was not able to show systematically whether this had resulted in higher standards of maintenance, www.nao.org.uk/reports/the-performance-and-management-of-hospital-pfi-contracts. As PFI contracts have come to an end, there have been some controversies about whether private contractors are returning the assets to the public sector in the expected high-quality condition, www.instituteforgovernment.org.uk/comment/pfi-assets-risks-disruption-public-services

Third, announcements of major new building programmes are sometimes made in election manifestos or at party conferences and those policies do not tend to go through the full civil service-led policy development process to ensure they provide good value for money and are deliverable. This was certainly the case with the New Hospital Programme (NHP), announced in the 2019 Conservative manifesto, as the NAO's report explains:

> "NHP appeared to get underway with a high degree of certainty in late 2020. However, the government's decisions about the programme were not as mature as implied by its public announcement in October 2020… In fact, for most schemes the issue of affordability had not yet been considered."[7]

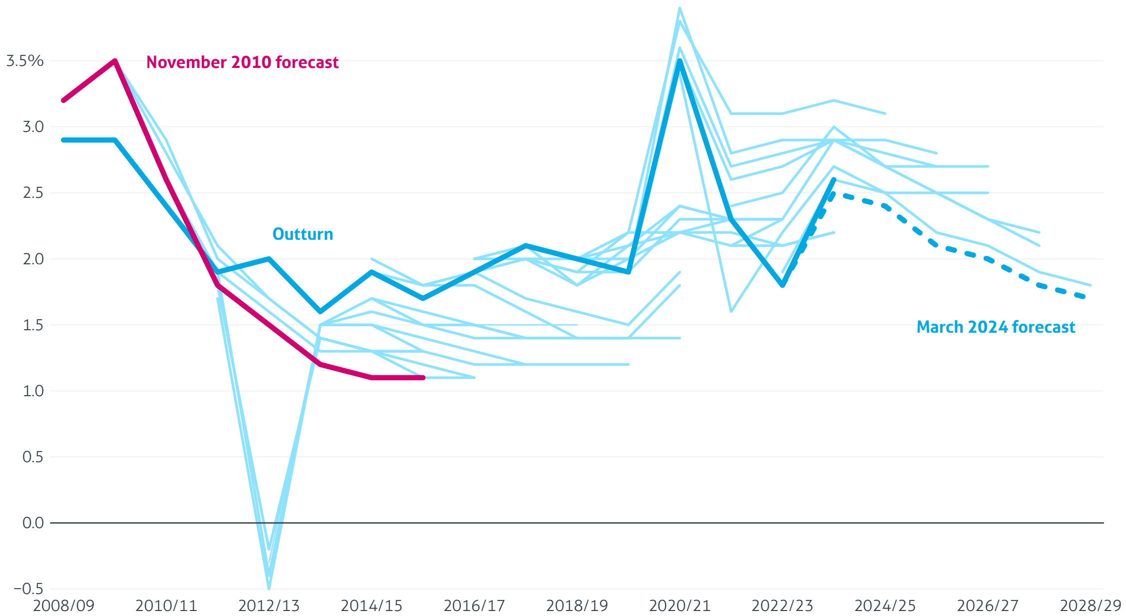
Although not related to public services, Rishi Sunak's announcement of the abandonment of HS2 and its replacement by Network North at the 2023 Conservative Party conference provides another example of a conference announcement on capital spending that was not properly supported by a robust policy development process.

Changing political priorities can undermine value for money and private sector confidence

Changing political priorities sometimes leads to money for capital projects being reallocated or plans being abandoned even once they are well advanced. This can create uncertainty about government's commitment to particular projects, which makes it more difficult for delivery bodies to plan, more difficult to contract with the private sector and undermines the confidence of firms who are required to carry out the construction work.

Overall public sector investment spending levels have often been volatile and unpredictable (see Chapter 2), which has created considerable uncertainty, even in the relatively near-term, as Figure 14 shows. For example, at the start of the current parliament, the government said that public sector net investment would remain above 3% of GDP, proudly announcing in the March 2020 budget that "by 2024–25, public sector net investment will be triple the average over the last 40 years in real terms".[8] However, the latest plans are for investment of just 2.4% of GDP this year, falling to 1.7% by 2028/29.

Figure 14 **Public sector net investment as a proportion of GDP, outturn and OBR forecasts, 2008/09–2028/29**

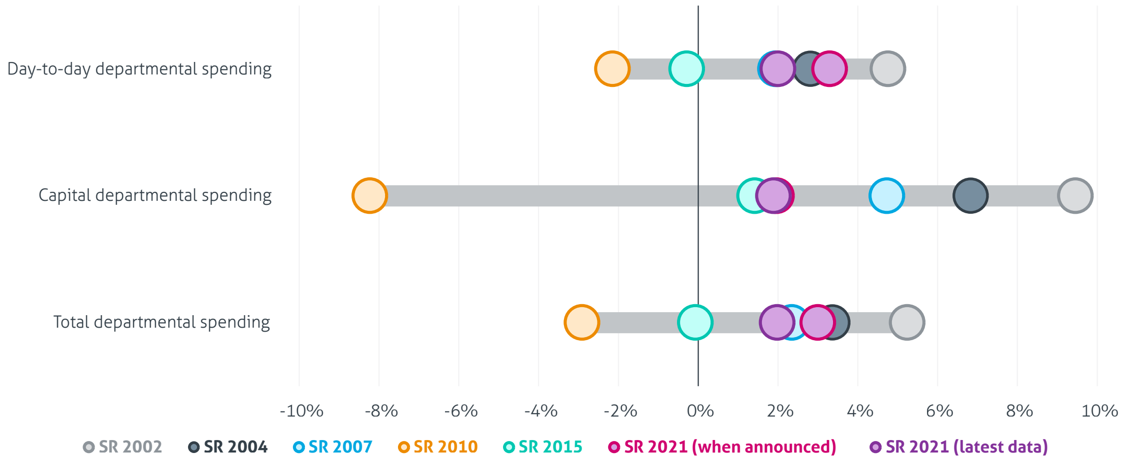


Source: Institute for Government analysis of Office for Budget Responsibility, 'Historical official forecasts database', March 2024. Notes: Updated version of Figure 8 of Odamtten F and Smith J, 'Cutting the cuts: How the public sector can play its part in ending the UK's low-investment rut', The Resolution Foundation, March 2023. PSNI was forecast to be negative in 2012/13 because of the planned sell-off of Royal Mail and the associated transfer of its pension fund assets to the private sector.

These volatile and unpredictable aggregate plans translate into similar volatility in, and uncertainty about, how much government spends in specific areas, further frustrating departments' and service leaders' longer term planning. Figure 15 shows that the variation between spending review periods in the rate of growth of spending is far larger for capital spending than for day-to-day spending. Investment spending was cut sharply during the 2010 spending review period, increased more quickly than day-to-day spending but less quickly than under the previous Labour government's spending reviews during the 2015 spending review period, and has then been increased slightly more quickly again during the 2021 sending review period.* As a result, public sector net investment has reached an above-historical-average level of GDP but is now set to remain frozen in cash terms beyond 2025.

* Figure 15 shows that the expected outturn for average annual real-terms growth in capital spending over the SR21 period (comparing 2021/22 to 2024/25) is roughly the same as when the plans were originally announced in 2021, despite higher-than-expected inflation since then. This is for two reasons. First, there have been some small top-ups to budgets: for example, DHSC capital spending is now set to be £33bn in cash terms over the three-year period, rather than the £32bn originally planned. Second, underspends on budgets in 2022/23 and 2023/24 have been carried forward into 2024/25. This flatters the apparent growth in capital spending between 2021/22 and 2024/25 but overstates the extent to which capital spending outturns have actually been as generous as planned at SR21. Across all three services we consider in this report, in real terms spending cumulated across the three years is now set to be lower than planned in SR21.

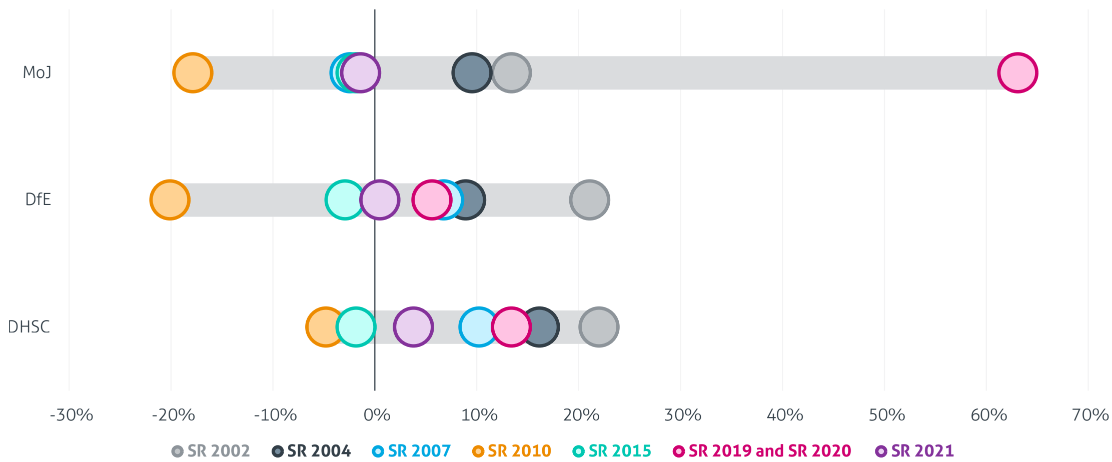
Figure 15 **Average annual real-terms increase in spending announced at spending reviews, 2002 to 2021**



Source: Institute for Government analysis of successive HM Treasury spending reviews.

Figure 16 shows that there has also been considerable variation in capital spending growth over different periods for the three departments we focus on here. MoJ, in particular, has experienced huge variation in capital spending, while the chart highlights the relative generosity of the last Labour government's spending reviews for DHSC capital but much lower settlements more recently.

Figure 16 **Average annual real-terms increase in capital spending announced at spending reviews, 2002 to 2021**



Source: Institute for Government analysis of successive HM Treasury spending reviews

Changing ministerial preferences also has consequences for individual projects in a way that can compromise value for money. For example, the NAO reported on the circumstances of six hospital building schemes that had been cleared to progress to business case approval as part of DHSC's health infrastructure plan in 2019 but were then subsumed into the NHP when this was launched in 2020, which delayed these projects.[9]

Changes of government create a particular risk of major changes to capital spending plans. It is appropriate that a new government should be able to change direction if existing plans do not match up to its priorities. However, this should be done in a well-evidenced, measured and clearly explained way to avoid creating unnecessary uncertainty for the public and private sectors.

Interviewees pointed to the Building Schools for the Future (BSF) programme as an example of a major programme that was introduced by the Labour government but abandoned when the coalition government took office in 2010. Some interviewees felt this was the right decision on value-for-money grounds, since the schools built under that programme were unnecessarily bespoke, leading to higher build and maintenance costs.[10]

However, the cancellation nonetheless damaged private sector confidence and Michael Gove (the minister responsible) has acknowledged that the way he approached this decision was one of his major errors as a minister. In 2016, he told Andrew Marr: "It was done in a crass and insensitive way. It taught me a lesson."[11] A large construction company had developed a pre-cast concrete manufacturing facility – to produce standardised parts for new school buildings – in the expectation of a steady stream of demand. The cancellation of the BSF programme created serious problems for the company and it took many years for it to pivot to other sectors to make full use of the factory's capacity. Gove's approach also alienated architects.[12]

Fiscal rules can unhelpfully skew decisions

Over the past 20 years there have been periods when fiscal rules – or, rather, politicians' responses to them – have contributed to poor value-for-money decisions on capital spending.

During the 2010s, capital spending was cut more sharply than day-to-day spending on public services. To help meet the rule that debt should fall, ministers chose to cut back most on the element of spending that voters may take longer to notice. This repeated the behaviour of the Conservative government during the 1990s and was one of the reasons why, in 1997, Gordon Brown as chancellor adopted fiscal rules that distinguished between day-to-day and capital spending.

But looking back to the experience under that Labour government offers a cautionary tale of the opposite type. During the later years of the last Labour government, Brown's golden rule – which imposed a restriction on borrowing for day-to-day spending – meant that the government was constrained in how much it could spend on the day-to-day running of services. But his second fiscal rule, on sustainable investment, which limited the accumulation of debt, was relatively unconstraining. Together, these meant capital spending could be increased more rapidly than day-to-day spending.

In response to this, Labour met its ambitious plans for overall spending on public services in part through rapid increases in capital spending. This helped to achieve pledges such as, following the Wanless review, to increase NHS spending by 7% a year in real terms for five years[13] and to increase education spending faster than growth in the economy.[14] Between 2000/01 and 2007/08, day-to-day spending on education and the NHS grew by 9.7% and 7.2% respectively in real terms, compared to 13.3% and 13.7% growth in capital spending.* Interviewees said that this division of funding was not the most effective way of improving service quality and – in schools at least – led to some poor value for money capital spending, including the BSF programme. They also pointed to the risk that these capital assets could not be used fully if there was insufficient day-to-day spending available (for example, to pay staff) to make use of them.

The role of spending reviews and Treasury spending controls

While many of the UK's processes appear to match international best practice for managing and controlling public spending (see Box 1), interviewees highlighted several areas where there is room for improvement. Despite having many formal processes that on the face of it adhere to international best practice and despite some recent improvements, problems remain in how capital spending is managed and controlled by the Treasury. These all hinder effective capital spending in public services.

Box 1 **International best practice in managing and controlling public spending: how does the UK compare?**

In many ways the UK's formal processes for managing and controlling spending adhere closely to international best practice.**

- Since 1997, UK governments have set out explicit targets for borrowing and debt (though not separately for revenues and expenditure), which inform the setting of expenditure ceilings.
- Fiscal plans are based on economic and fiscal forecasts produced independently by the Office for Budget Responsibility, based on clearly stated, objective economic assumptions.
- The government also sets expenditure ceilings,*** consistent with the government's fiscal rules, for the current and five future fiscal years. Once budgets are set for spending departments they largely only deviate from this pattern with agreement from the Treasury.

* Plans for capital spending set out at the 2004 spending review were for capital spending in each service to increase by 20% per year on average in real terms, but budgets were underspent by a large margin.

** This is based on the OECD's 'Spending Better Framework', https://one.oecd.org/document/GOV/SBO(2022)6/REV1/en/pdf. However, there are three aspects of good spending management practice that the UK does not completely follow: (i) producing medium-term baseline spending forecasts for public services to act as an early warning of emerging spending trends; (ii) applying the same scrutiny to tax expenditures as to other types of spending; (iii) strong parliamentary budget oversight and citizen engagement.

*** Expenditure ceilings are set for departmental expenditure limits (DELs), with these broken down by department for the period covered by the latest spending review and provided as aggregate totals for later years.

- Expenditure ceilings for individual departments are set at spending reviews.* Spending reviews should provide an opportunity to ensure that spending is aligned with government priorities, at least in theory. However, recent reviews have not been effective in doing this, not least because government has been poor at articulating its central priorities.[15]

- Decisions about spending allocations should, again in theory, be informed by high-quality evidence such as performance information and policy evaluations. Spending bids from departments are required to be accompanied by a five-part business case – a model that was in 2018 adopted by the G20 as an international standard for preparing infrastructure projects – although sometimes are not, especially when spending reviews have been rushed.[16] And, as we describe below, business cases are sometimes not well-constructed or are not used effectively in decision making.

- The Treasury also presents information about revenues, expenditures, assets and liabilities – using internationally accepted approaches to accruals accounting – in a broadly comprehensive and consistent manner, on a regular basis.

- To help inform decisions about capital spending in particular, the Treasury's *Green Book* – which is built around the international standard five-case model – provides guidance on how departments should construct comprehensive business cases.[17] Revisions made to the *Green Book* following a review in 2020 provided new guidance in some areas, such as on how to appraise "transformational changes".[18] Treasury officials have also been working with other departments to improve understanding of the *Green Book* – including, for example, raising awareness of the importance of producing a high-quality strategic case since the review had found that strategic cases were often poor.[19]

More longer term capital spending settlements are needed

One positive change in recent years has been greater use in some areas of longer term capital spending settlements, which have provided greater certainty both for departments and private contractors about the future pipeline of work in some areas. For example, the 2020 spending review announced a six-year investment in further education colleges in England;[20] in 2021 the Johnson government announced a six-year funding settlement to improve flood defences and tackle coastal erosion;[21] and in 2022 five-year funding settlements for road and rail were announced.[22] These were promising moves, but such models remain the exception rather than the rule.

* In the best cases, these have covered multiple years, although there have been several one-year reviews in recent times – in 2019, in the face of uncertainty around the UK's exit from the EU and the change in prime minister, and in 2020 during the Covid-19 pandemic.

It can still be difficult to make the case for investment in public services

The Treasury's *Green Book* provides a rigorous and robust way of assessing and comparing alternative capital spending options for achieving a given policy objective, helping officials and ministers to home in on the best options that are deliverable and offer best value for money. This includes providing advice on how to capture different types of benefits, from economic to social and environmental.[23]

However, this is not the only purpose to which business cases are put. During spending reviews, departments also submit business cases for new projects to the Treasury, whose ministers then decide which should be funded across all departments.[*] This process entails comparing projects that have vastly different objectives and so whose economic cases (in particular) are likely to look very different. The crucial part of the business case that should help the Treasury to weigh up such wildly different proposals is the strategic case, which sets out how a proposal helps to meet the government's strategic objectives.

The Treasury used to focus very heavily – if not exclusively – on the economic case within the business case to prioritise capital spending bids. For example, in the 2010 spending review, Treasury officials (supported by a panel of experienced chief economists from across government) drew up a list of all the capital spending bids received from departments and ranked them from the highest to the lowest benefit–cost ratio. This ranking was then given to ministers, who made some choices to reprioritise and then drew a line where the money ran out.

Several interviewees told us that the Treasury now takes a more nuanced approach to assessing capital spending bids. The Treasury is keen now to emphasise the importance of other aspects of the business case, including how the project aligns with the government's strategic objectives. This is a welcome development. It should have helped officials to provide advice to ministers that ensured the funded projects helped deliver against the government's full range of objectives, which were by then articulated through departments' outcome delivery plans, although some of the government's key objectives – such as levelling up[24] – have remained poorly defined.[**]

However, many interviewees remain concerned that the process for producing and assessing business cases and allocating money to capital projects continues to bias against investments in public services compared to economic infrastructure and particularly against maintenance of public service assets. First, interviewees said that there has continued to be an excessive focus on the benefits delivered by projects in the next five years. Fewer than half of departmental finance and planning officials who responded to an NAO survey in 2018 thought that Treasury spending teams "considered the long-term impact of funding decisions on outcomes".[25]

* These business cases can be at very different stages of development, exacerbating the challenge of comparing across different business cases.

** However, other Institute for Government research has found mixed evidence on the extent to which these ODPs were used to inform decision making at the 2021 spending review, www.instituteforgovernment.org.uk/sites/default/files/publications/outcome-delivery-plans.pdf

This is a problem for public services investment as many investments may only pay off in the longer term – for example, a better quality prison estate that enables prisoners to take part in education and training programmes and other rehabilitative activities may reduce reoffending and improve prisoners' economic outcomes, but these benefits may not manifest for many years.

Second, many interviewees noted that it can still be difficult to construct a business case for public services capital and that this can be more difficult to do than for economic infrastructure. First, it can be harder to monetise the kinds of benefits from (say) improving a school building than from (say) building a new road: there is a well-established evidence base used to translate travel time saved into a monetary benefit, but far less clear evidence on the value of educational outcomes caused by poor school buildings.*

Third, interviewees said that it can be difficult to construct a compelling business case for maintenance spending. But failing to properly maintain assets can often be a false economy: as work by the Government Office for Property and NAO[26,27] has shown, failing to do this can often lead to higher costs later on. While in principle it should be possible to capture these costs in the options analysis in a business case, many interviewees said they found this difficult to do.**

Fourth, it can be difficult to appropriately reflect the cost of failing to comply with statutory duties (such as the legal requirement to meet health and safety requirements) or other implicit aspects of the social contract (such as the commitment to educate children in decent conditions) in a comparison of cost–benefit ratios.

Placing greater weight on the strategic case in recent years should have helped to rebalance decisions more in favour of capital spending on public services such as hospitals and schools. But properly assessing the strategic cases during a spending review takes time that Treasury officials often do not have; relying on a summary number for each project provided by the BCR is often still the more realistic path.

Interviewees said there was also still more work needed to share best practice across the public sector in producing business cases, including by providing more training and sharing more good examples. And, in practice, business cases are sometimes reverse engineered to justify a particular idea, rather than genuinely being used to help policy makers assess the potential options and home in on the best choice.

Spending allocations rarely match aspirations

As the examples in Box 2 and Box 3 demonstrate, allocations made in spending reviews often fail to match the government's aspirations for capital assets. Delaying the delivery of projects also increases the inflation risks to which project costs are

* This depends not only on understanding how different levels of maintenance will affect building conditions in practice but also how those conditions affect pupil attainment and ultimately outcomes such as lifetime employment, earnings and health.

** Most central government business cases are not published but for an example of a business case considering options of maintenance compared to a more substantive rebuild, see https://democracy.bristol.gov.uk/documents/s57940/Appendix%20A%20-%20Business%20Case%20-%20Chocolate%20Path%20Wall%20Repairs%20-%20Rev%20A.pdf exposed as well as delaying the benefits for service users. This causes problems both for maintaining existing assets and delivering new projects. There can be legitimate reasons for government to decide not to fully fund new programmes or meet all expected maintenance costs: within constrained budgets, ministers must prioritise. But the consequences of these choices are often not properly understood nor are ambitions scaled back accordingly because shortfalls are not made clear to the public – or parliament – when spending settlements are announced.

Box 2 **New Hospital Programme: funding choices drove delays and higher risk**

As the NAO laid out in a 2023 report, funding choices made for the New Hospital Programme right from the start increased the likelihood of delays and risks. In 2020, DHSC estimated that it would need between £19.8bn and £29.7bn by 2030 to build the 48 hospitals that had been designated as part of NHP. It estimated that it would need between £3.7bn and £16bn during the programme's first four years, up to 2024/25. The bottom end of this range, which is what the Treasury ultimately funded, represented a scenario that DHSC referred to as "maximum risk and policy compromises". This scenario required DHSC to postpone the delivery of many schemes (including most of the larger ones) until later in the decade. As the NAO said:

> "this increased the risk that in later years many schemes would need to be under construction at once, meaning it could be harder to find construction companies willing or able to build them for a good price".[28]

This choice to provide a bare minimum level of funding to the NHP and delay the delivery of many projects until the end of the decade was not acknowledged when the 2021 spending review was announced. The Treasury's spending review documents simply stated that "SR21 also confirms £4.2 billion over the next three years for 40 new hospitals and over 70 hospital upgrades".[29]

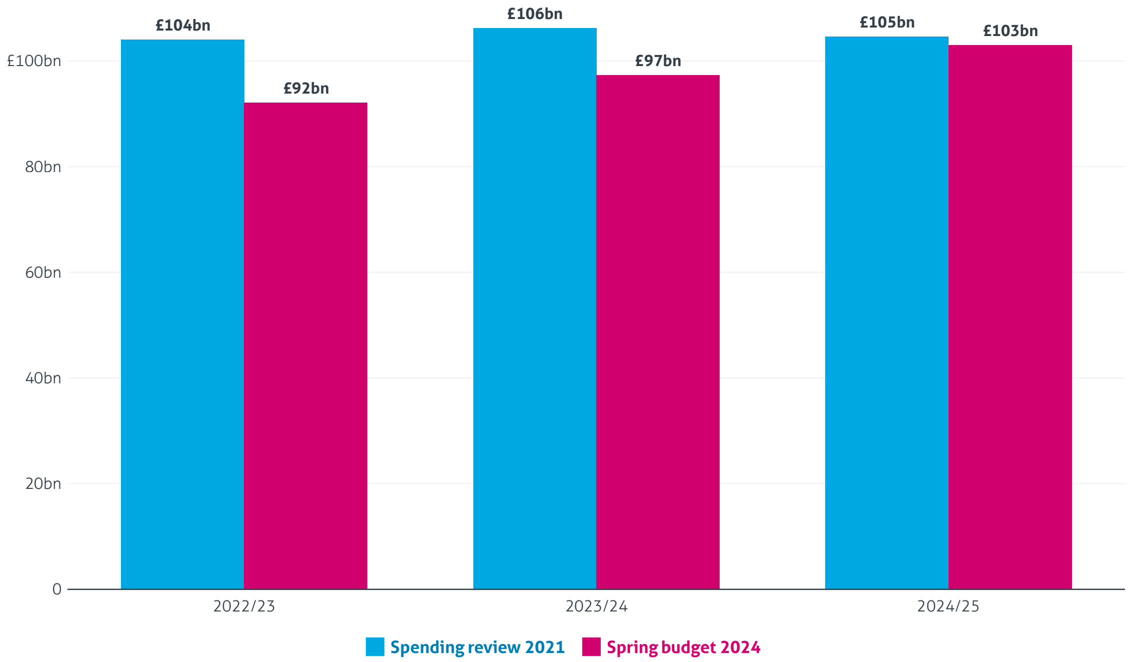
Box 3 **Schools maintenance has repeatedly been underfunded**

In recent years DfE has repeatedly received less funding for maintenance and rebuilding than the department estimated was needed to keep the estate in adequate condition.[30] This was despite the fact that the 2020 spending review stated that one of the government's four key priorities was "to level up education standards and provide all learners with a quality education experience".[31] While we understand the decision not to prioritise maintenance was ministerial, the reasons for this deprioritisation of school maintenance were not clear from the spending review documents and the implications for the quality of the school estate were not acknowledged. The growing backlog of maintenance across public services shows that this failure to adequately fund maintenance of the existing estate is not limited to schools but is far more systematic.

The risks surrounding allocation decisions made in spending reviews are usually known at the time, but this information is not transparent. Usually subsequent NAO investigation will shine a light on the decisions – as the examples in Box 2 and Box 3 show – but only after the fact. This creates a gap in ministers' accountability for spending review decisions.

Since 2021, problems have also been caused for the delivery of government's capital spending pledges by a failure to respond to the inflation shock. When the 2021 spending review was set out, the capital spending allocations were seen as relatively generous. CDEL budgets were set to average £105bn per year in 2021/22 prices over the course of the spending review, 14% higher than 2021/22 and 41% higher than 2019/20 in real terms. But with prices rising much more quickly than anticipated the average spend is now only expected to be £97bn per year in 2021/22 prices, a cumulative shortfall of £22bn. In most cases, the Treasury has chosen not to top up spending allocations, even though project costs have risen sharply. This was an active policy choice by the chancellor: though the exchequer benefited as high inflation boosted tax receipts, the chancellor chose not to compensate departments for the similarly higher costs they faced.[32]

Figure 17 **Capital departmental expenditure limits in 2021/22 prices, as planned at spending review 2021 and latest estimates (£bn)**



Source: Institute for Government analysis of HM Treasury, Spending Review 2021 and Spring Budget 2024 and Office for Budget Responsibility, Economic and Fiscal Outlook, October 2021 and March 2024.

Part of this was put down to unfamiliarity with certain economic circumstances. After a long period of low, stable inflation, interviewees said that civil servants had little experience of high inflation and had become complacent about inflation risks and the need to factor these into funding allocations. There were also problems with how some departments approached contracting, mentioned further below.

A related problem mentioned by interviewees is that, even if the capital costs of projects are adequately met, sometimes there is insufficient resource funding to deliver the project and then meet the running costs of new buildings or equipment. For example, resource funding can sometimes be insufficient to manage large capital schemes, to pay for the staff needed to operate new equipment or work in a new facility, or to meet the maintenance costs of new assets. This problem arises at least in part because of a lack of co-ordination between capital and resource spending decisions at spending reviews.

Departments lack flexibility in deciding how money is spent over time

The Treasury not only dictates how much departments can spend in total on particular projects or programmes but also what the time profile of that spending should be, ring-fencing specific projects and programmes within annual capital budgets.

As described above, if a department wants to move money from one year into the next, they must apply to the Treasury for permission to budget exchange. The Treasury imposes these restrictions on moving money between years to ensure that the exchequer remains in control of overall government spending and borrowing.

Despite the flexibility to move some money between years, several interviewees raised concerns about the constraints that are currently imposed on departments by the annual spending allocations set out in spending reviews. One particular problem is that the spending review allocations often do not reflect a realistic profile for spending. For example, interviewees noted that it often takes some time after money has been allocated to the department in a spending review for capital projects to get up and running, meaning it is hard to spend money quickly in the first year, but that spending review allocations do not always reflect this. This is a particular problem if spending decisions are made at short notice, and in the first year of a spending review. Interviewees also suggested that managing budgets to hit annual targets could be highly inefficient, both in terms of consuming a large amount of staff time and risking allocating money to lower value projects just because they can be delivered quickly.

Constraints on departments' ability to move money from one year into the next if projects are delayed is one of the causes of the 'hockey stick' profile for spending through the financial year: if a department is unable to move money, there is a strong incentive to spend it rather than have to hand it back to the Treasury. DfE has some flexibilities that allow it to re-profile capital spending to meet annual limits without posing value-for-money risks – in particular, it can bring forward grants to local authorities for high needs allocations which have been planned in advance.[33] As local authorities sit outside the departmental group, spending is scored at the point the grant is paid to authorities rather than when money is spent on projects. However, DHSC and MoJ do not have these same flexibilities. This suggests there could be a case for providing departments, who are likely to have a better understanding than the Treasury of the details of individual capital projects, with more flexibility to spend the overall budget in line with the relevant project milestones.

That said, under the last Labour government departments did have more flexibility of this sort (known as 'end year flexibility') but it is not clear that system led to a notably more efficient use of money at the time. For example, interviewees told us that departments still had a high propensity to spend money disproportionately at the end of the financial year and many racked up increasingly large surpluses over time – by 2010, departments had accumulated around £20bn of unspent funds, which the new coalition government wiped out upon taking office.[34] Interviewees noted the tension between providing more flexibility to departments and providing an incentive for them to deliver projects on time, with more flexible funding arrangements boosting the former but harming the latter.

A related problem that has emerged in recent years is new IFRS16 accounting rules that require multi-year leases to be counted up front as capital spending, rather than the annual lease costs being recorded as annual resource spending as was previously the case. The Treasury provided departments with funding to account for this change when it was first made. However, several interviewees said that in practice it was constraining investment decisions, especially for NHS trusts. Other Institute work also identified a similar problem in primary care.[35] The accounting change does not affect how much a lease will ultimately cost the public sector, only how it shows up in headline numbers. Interviewees suggested this problem had not arisen in other countries that had made the same accounting change, and that inflexible spending rules was one reason why the change had been more difficult to accommodate in the UK.

Accounting officer accountabilities are unbalanced

Departmental permanent secretaries, in their roles as accounting officers, are rightly held to account for any budget overspends. This is an important part of the process for ensuring that the government as a whole does not spend and borrow more than intended. If a department does overspend, the permanent secretary is required to have very uncomfortable conversations with Treasury officials and will be hauled before the relevant departmental parliamentary committee and the Public Accounts Committee.[36]

This fear of overspending leads departments to hold back some money in case unexpected demands materialise towards the end of the financial year, which contributes to the tendency to underspend allocated budgets. Departments have tended to hold back some of their capital budgets not only to meet unexpected capital spending demands but also sometimes (with Treasury approval) to cover unexpected resource spending needs as it is often seen as 'lower cost', politically, to raid capital budgets than to find last-minute cuts to other areas – as seen with DHSC and DfE's recent transfers to fund pay awards discussed above.[37]

Departments can also be unwilling to let their ALBs 'over-programme' – that is, plan more projects than can be afforded within a given period – even though this would often make sense given that projects often run late, although in the most recent spending review ICB plans could over-programme by 5%.[38]

This tendency for departments to underspend their capital budgets is understandable given the incentives they face and the high reputational cost of overspending. But it contributes to an underinvestment in maintaining and developing the buildings and other assets that support public service delivery. Many of these departments' underspends have been on projects that had ring-fenced allocations from the Treasury, meaning the money could not be used elsewhere:* had it been spent on maintenance, this would be equivalent to around 30% of the current backlog in prisons and around 60% of the backlog in hospitals. But this underspending comes at comparatively little cost to those involved as permanent secretaries are not held to account for this in the same way as they are for overspending.

Services do not make best use of 'on the ground' knowledge when allocating money

Interactions between the Treasury and spending departments in Whitehall are one important determinant of how capital budgets are spent. But those departments' delivery bodies closer to the front line also play a role.

Departments and their ministers and permanent secretaries are ultimately responsible for ensuring the money is spent well, but spending it well requires delegation to and collaboration with other bodies. Public service leaders, both national and subnational, need to set out longer term strategies for investment, which inform the bids that Whitehall departments make to the Treasury and the decisions the Treasury ultimately makes about how to allocate funding.

As we identified above, in hospitals and schools spending on capital comprises a mix of grants to delivery bodies (who then decide on priorities within centrally set guidelines) and spending that is controlled directly by the department, while in prisons spending is all determined by HMPPS. We have identified several ways the current approach to capital spending at a departmental level contributes to some of the problems we have identified and undermines achieving value for money.

An overly centralised approach to capital spending allocation adds to bureaucracy and means investments do not meet local needs as well as they could...

As we identified above, public service capital can be broadly split into three categories. First, capital allocated to delivery bodies based on a formula, which the delivery body then chooses how to spend. Second, pots of funding awarded to delivery bodies by central agencies but for specific purposes, often via a competitive process. And third, national programmes where the projects are determined centrally without much involvement of delivery bodies, principally the building of new sites.

* For example, in 2022/23, DHSC underspent by £1.3bn but only £0.2bn of this was from 'business as usual' allocations (https://assets.publishing.service.gov.uk/media/65b236c81702b10013cb1289/DHSC-Annual-report-and-accounts-2022-2023-web-accessible.pdf). In 2021/22, of the £1.3bn total underspend of the DHSC CDEL budget, just £88m was accounted for by the NHS (https://assets.publishing.service.gov.uk/media/63e50dc0d3bf7f05c8e947a8/dhsc-annual-report-and-accounts-2021-2022_web-accessible.pdf).

There are good reasons for departments and services to adopt each of these three models in different cases. Large national strategic programmes for rebuilding or building new estates will need to be prioritised through a national lens. In other cases, the government might have a clear objective for funds but rely on local knowledge to identify appropriate projects. Some interviewees pointed to community diagnostic centres – designed to improve diagnostic capacity outside of hospitals – as a recent example, where there was strong evidence about their efficacy and how to design them, based on an external review, but the appropriate design and delivery model depended on place.[39] This was a contested view among interviewees, however, with others viewing the diagnostic treatment centres programme as overly restrictive. For more routine projects, and most maintenance in particular, the flexibility afforded by formula grants to delivery bodies makes most sense.

A common critique is that too much spending is centralised and would be more efficient if local bodies were given more flexibility and discretion. In particular, interviewees pointed to problems with funds that require local bodies to put in bids to central government and/or where they must comply with tight centrally determined criteria, arguing that they can often be poor value for money and fail to meet objectives. In hospitals, the targeted investment fund was identified as one such example. In 2021, the government announced £700m of funding through the targeted investment fund for projects to help with recovery from the pandemic,[40] but interviewees argued the way the fund was administered was overly costly, imposing several bureaucratic hurdles. They argued that allocating funding more flexibly would have been more efficient, with areas then able to spend the money as they saw fit to boost performance.

A related problem is the inefficiency and cost of compiling bids to win money from competitive funds. Interviewees suggested this was especially problematic when funding became available at late notice towards the end of the financial year (perhaps because other projects were underspending), and bids had to be compiled at short notice. One NHS trust gave examples of DHSC asking for small bids within a matter of days for projects that could be completed within a few months. A similar situation was reported in prisons.

And even when competitive bidding happens with longer time frames, the process may still not be conducive to achieving best value for money. Smaller MATs rely on bidding for an allocation from the Conditions Improvement Fund (CIF), where 74% of bids for small improvements are unsuccessful.[41] Unsuccessful bidders do not receive much feedback and there is a widely held view that the process tends to reward those schools that are best at writing bids rather than those that have the most worthy projects. Similarly, in prisons where most funding for maintenance and improvements is awarded by competitive grants, interviewees suggested the process by which bids were chosen was opaque.

There can be a good rationale for a competitive process: bid writing can sharpen project proposals allowing the department to better judge which is highest priority. However, in practice this model does not tend to achieve this aim. Competitive pots have been studied in more detail in the context of local government funding for local economic growth, where there is a broad consensus that a proliferation of small, ring-fenced competitive pots has undermined efficiency. Bidding for specific projects is costly, undermines a strategic approach across all of spending, and too often results in bodies tailoring bids to central government's view of what is effective rather than employing their own local knowledge to identify priorities.[42] The government has acknowledged this and is now looking to simplify funding for local authorities, including by making less use of competitive pots.[43] Many of these lessons also apply to public services capital more generally.

Even where 'flexible' funding is provided, interviewees have pointed to ways departments retain excessive control over how money is spent, stymieing more effective approaches to spending. Most importantly, there is a lack of certainty and flexibility about funding over multiple years. For MATs, funding is only guaranteed for one year, making it difficult to be strategic about how money is spent over multiple years, or to commit funding for multi-year projects. In prisons, funds that are awarded through competition must be spent within the same financial year, and interviewees pointed to examples where projects had been cancelled because they would not be complete by the end of March. In the latest spending review period there was, however, a positive development for health care providers: ICSs were given multi-year budgets (although budgets in later years are subject to minor revision).[44]

Further restrictions apply on what appears to be flexible funding within year. For ICBs, national programme capital investments below £25m can be approved by NHS England and above this level DHSC must approve it (a higher limit applies for delegated capital). But all capital projects greater than £50m require Treasury sign-off. In addition, there is separate Cabinet Office commercial approval for schemes over £10m. These multiple layers of approval and sign-off can lead to delays in projects starting. The Treasury also has similar delegated authority limits for DfE and MoJ, with Treasury sign-off required for any projects that exceed these limits.

To control the department's overall spending and ensure they stick within their allocated CDEL limit, hospital trusts are also limited in how much they can spend on capital from their reserves. This has led to the phenomenon of 'stranded cash', where some foundation trusts have cash to spend more on capital but are not permitted to do so.[45] This is the case even in years when DHSC underspends its overall CDEL by a large margin. Hospitals are also not allowed to use surplus resource budgets to top up capital spending in year without the department's permission, even though Treasury guidance allows for transfers from resource to capital budgets. We heard that this was because overall DHSC RDEL budgets are often overspent, with DHSC then asking the Treasury for permission to top them up (often funded by CDEL switches, as mentioned above). In contrast, schools are able to use revenue surpluses to top up investment.

...but limited capacity in some local organisations and the need for co-ordination constrains how much autonomy can be decentralised

While there is a strong case for departments to take a more decentralised approach and give delivery bodies (such as ICBs, academy trusts and prisons) more discretion over how to allocate capital spending, in some instances institutional arrangements make it difficult for departments to take a more decentralised approach. Delegating decision making can only work effectively if there are appropriate bodies to delegate to.

This is demonstrated most clearly in schools, where DfE does provide additional flexibilities to larger MATs and local authorities through the school condition allocation (SCA). In larger trusts and all authorities, this and other funding is pooled and can be deployed where need is greatest across schools – for example, one large academy trust has built its own activity centre for use by all schools in the trust. However, for smaller academy trusts (that is, ones with fewer than five schools, including single academy trusts) DfE retains more control through the CIF.

This is for two reasons. First, because DfE judges that the trusts may not have sufficient strategic capacity to allocate spending well. Second, the amounts that would be available to any individual smaller academy trust if the funding were allocated through a SCA-like formula might be too small to complete bigger projects using one year's allocation. Interviewees agreed that the atomised nature of trusts makes it more difficult to decentralise funding: there are 2,500 trusts across the country, and 40% of schools are in trusts of five or fewer schools.[46] The NAO has highlighted that some local authorities now control fewer than five schools so that, if they were MATs, they would be eligible for CIF rather than SCA.[47]

In health, ICBs now provide an organisational tier that can have strategic oversight and prioritise effectively within an area. This is reflected in the greater share of spending that is provided flexibly to ICBs via a formula than to delivery bodies in other services. However, interviewees highlighted that the strategic capacity in ICBs is variable across the country. These are still quite new organisations and, while some have well developed processes for identifying need and allocating funds, others are less advanced.

Prisons is the most nationwide of the three systems we examine in this report, explaining why so little prisons funding is provided by formula. Bids for maintenance spending from individual prisons are prioritised regionally (or, in the case of high-security prisons, women's prisons and young offender institutions, prioritised within these categories). Those regional priority lists are then prioritised centrally by HMPPS, which is responsible for allocating capital spending. The prisons system is a national one: especially when the system is nearly full, it is important to use capacity flexibly across the country. However, interviewees we spoke to gave examples of some funding being awarded for projects – like new walls – that those closer to the front line considered low priority, and suggested governors who know their estates best did not play a large enough role in determining which projects should be highest priority.

Even where more decentralisation might not be possible, there are still ways in which the current system operates inefficiently. In particular, in both schools[48] and (interviewees told us) prisons the level of funds available and the criteria used to determine funding awards are opaque. This means that bodies might end up submitting the same bid year after year without success or a clear idea of what criteria it is failing. And there is often not sufficient guidance, support or capacity funding to ensure schools and prisons are able to develop bids well.

Public services have an inadequate understanding of their current capital stock

Managing estates effectively at the level of a public service requires an in-depth understanding of both the current state of buildings and equipment and how demands for them are likely to change over the coming years and decades. Significant progress has been made in this area in the past decade, meaning departments and delivery bodies should be better placed in future than they have been to allocate funding to the most important areas. However, overall services' understanding of their estate, and how it will need to evolve, remains inadequate.

Understanding of estates has been strongest in the NHS, where NHS trusts are required to submit annual returns that estimate the size of the maintenance backlog across different hospitals and some of the consequences of problems with estates, like clinical time lost as a result of critical incidents. NHS trusts have collected this information since at least 1999.[49]

DfE conducted a conditions survey of schools between 2017 and 2019, the first since 2012 to 2014 (and more detailed in the different types of construction it identified), and is now undertaking another that will visit every school in the country by 2026. This is designed to fill gaps in the department's previous understanding of estates by providing more granular information, including on the presence of RAAC.[50]

HMPPS's poor understanding of prisons' maintenance needs was demonstrated in 2015, when the outsourced contract for activity ended up costing £160m over four years, compared to an anticipated cost of £18m.[51] In 2022/23, HMPPS began a detailed estate survey to better understand the condition and maintenance needs of prisons, similar to the school conditions survey, which was completed in December 2023.[52,53]

Each of DHSC, DfE and MoJ is now able to provide figures for how much it would cost to deal with outstanding maintenance problems across the estate and – based on estimates from the Office of Government Property – how much annual maintenance spending would be consistent with the best practice management of estates.[54] However, in both prisons and schools recent NAO reports have found the amounts provided at spending reviews have been below this level.[55,56]

Public services have an inadequate understanding of their future capital needs

As important for prioritising capital spending is an understanding of how demands on estates and equipment are likely to change over the coming decades. Demands for public services are to an extent relatively predictable and will depend in part on expected demographic changes – this is particularly the case for schools (for which demand is strongly tied to the number of school-age children), but is also the case for hospitals (with, for example, the very youngest and older people much more likely to demand health care). Demand for services will also depend on government policy – this is particularly the case for prisons, where policy decisions 'upstream' in the criminal justice system, such as recruiting additional police officers, and sentencing policy can make a big difference to the size of the prison population. MoJ produces forecasts for the prison population that have anticipated bigger increases than have emerged in recent years, in part because courts have not discharged cases as quickly as possible.[57] Demand may also depend on technological advances, particularly for hospitals.

While there is likely to be uncertainty about how service demand and delivery models will change, DHSC, DfE and MoJ should all be able to take some sort of informed view of expected future demands and the implications for their future capital requirements. However, planning cycles for public services capital have tended to operate at shorter time horizons. The NAO criticised HMPPS for only having firm estates plans a few years ahead,[58] while interviewees said that NHS capital planning has tended to focus on the current spending review period rather than much beyond it.

There is now a long-term workforce plan for the NHS,[59] published in 2023, but no equivalent estates and equipment plan. In schools, the easiest service in which to forecast demand, there is also not a nationwide estates plan to rationalise and guide decisions over how future schooling needs should be met between building new schools and maintaining existing ones. For example, as pupil numbers shrink over the coming years due to demographic factors, DfE will need to take a strategic view of how to manage the estate effectively, possibly even closing some schools.

As part of the New Hospital Programme, DHSC has made progress in assessing future need for acute services through its 'Hospital 2.0' project. This aims to identify what a hospital of the future might need to look like, including forecasts of demand. This depends on how technological changes affect the approach to care as well as demographic changes, and so is a more complicated exercise than in schools and prisons. While it is welcome that DHSC has tried to undertake this work, the NAO has raised concerns that some of the assumptions underlying this model are questionable: in effect, the model assumes demands on hospitals will be no higher in the future than they are now because technological changes are assumed to move care into the community, including a greater use of social care and digital care delivery models, outweighing demographic pressures in the other direction.[60] This highlights the importance of doing future modelling well – and ensuring models are made transparent and subjected to rigorous challenge – if it is to form an accurate basis on which to plan.

The lack of a clear long-term estates strategy risks undermining the effective allocation of capital spending. By focusing principally on the period covered by a spending review, there is a risk that governments might prioritise spending over the next couple of years that is not best value for money beyond that. A firmer long-term plan would make it easier to prioritise spending in the short term in a way that best aligns with the longer term needs of the estate.

Delivery itself is lacking

Once government has decided to go ahead with a project, it needs to set out clear plans and contract with the private sector to deliver at a reasonable cost and to a realistic timeline. The UK government has a chequered record in this regard. Comparable infrastructure tends to be more expensive to deliver in the UK than other countries and large projects often overrun.[61] This is true for social infrastructure like schools and hospitals as well as higher profile economic infrastructure like rail.

Ongoing high-profile programmes building new hospitals, schools and prisons are all currently running behind schedule. The school rebuilding programme had only awarded 24 contracts by March 2023, for example, compared to a forecast of 83 by that stage made just 18 months earlier.[62] The delivery problems principally relate to national programmes, rather than lower-level maintenance projects, and are the source of most underspends for public service departments as projects fail to progress as quickly as expected.

The government has recognised the need to improve how it manages projects. The major projects portfolio, set up in 2013, ensures additional processes and scrutiny are applied to the most significant projects, which currently includes programmes in hospitals, schools and prisons. The Infrastructure and Projects Authority oversees the portfolio and provides expertise and guidance to those managing programmes, as well as scrutinising the management of those projects. In the most recent spending review, it also provided advice on how to ensure initial capital delivery plans were realistic. And in 2020, the Cabinet Office issued *The Construction Playbook*,[63] which sets out steps central government departments and agencies should take when engaging the private sector on construction projects. Interviewees in the private sector told us the playbook was a positive step and contained useful guidance.

Delivering capital projects in schools, hospitals and prisons is not straightforward. Projects often need to happen in a live environment, as hospitals and prisons cannot discharge patients or release prisoners en masse. However, there continue to be avoidable problems with how the government delivers capital projects.

Avoidable issues delay delivery and increase the cost of projects

Several of the problems relating to how projects are delivered occur early in the project life cycle. While some funding for smaller projects tends to be rushed out of the door, as we noted above, interviewees pointed to long periods of uncertainty between the announcement of major investments and funding actually being allocated and contracts tendered. Interviewees suggested the New Hospital Programme was a prime example: while the intention to build was initially announced in 2019, there was then a long delay while the programme was fleshed out. The Treasury has also provided relatively little money up front, which means more of the building has been pushed back to the second half of this decade.[64]

Other problems arise later in the process. New prison building has been delayed by planning disputes in recent years, including environmental objections relating to badger habitats.[65] While not under the control of the civil service teams delivering projects, this is an example of another government policy hindering how quickly projects can be delivered. It should also be relatively predictable, as this is an issue for almost all new prisons, and yet does not get adequately factored into expected timescales for prison building. There are also several problems relating to the way government engages with the private sector (more on which below).

In recent years, high construction inflation has been an additional cause of delay. As the price of materials and labour has increased, spending originally allocated to projects was insufficient, and some contracts became no longer viable. Interviewees acknowledged that many of these problems were largely unavoidable. However, the increase in prices means that delays have been especially costly. The forecast cost of the first two cohorts of hospitals to be built under the New Hospital Programme increased by 41% between 2020 and 2023.[66]

Consistent delays to projects can also add to costs even when construction prices do not increase. In particular, interviewees told us that uncertainty over when construction will begin affects how well suppliers can prepare to deliver new programmes of work.

Government does not work as well with the private sector as it could

The government relies on the private sector to deliver capital projects. For several large construction companies, the government accounts for a large share of their business and so the way the government approaches capital delivery affects their business models, investments and pipelines. The private sector is affected by the government's overall approach to capital spending and projects and its micro-level approach to contracting.

The boom and bust cycle of public investment, both at a headline and service level, affects how the private sector operates. It generally takes time for construction businesses to assemble the equipment and workforce necessary to deliver a major capital project like a new school or hospital building. Interviewees told us that ramping up the supply chain quickly to deliver government projects in an unpredictable fashion can often lead to rising costs or simply an inability to deliver as the industry hits capacity and prices rise. This is especially the case if investment spending is increasing across the entire public sector. An unpredictable project that is announced and has to be delivered quickly will therefore tend to cost more and/or face more delays and difficulties in delivery than one that has been anticipated for months or years in advance.

The private sector can also take a different approach to delivering capital projects if it has a clear pipeline of projects that it expects government to commission in future. For example, if constructors know the government intends to build 200 schools per year over a decade or so, they can make the up-front investments, in both factories and workforces, to deliver that pipeline. The NIC does now publish a pipeline of infrastructure projects,[67] but interviewees said this was not yet viewed as concrete enough to provide the necessary certainty, and was more of a 'wish list' than a plan. Construction companies have been burnt before, most notably through the Building Schools for the Future (BSF) programme mentioned above.

The Construction Playbook, developed jointly with industry, sets out the steps that departments and ALBs should follow to contract effectively with the private sector. It notes that contracting many years in advance can lead to higher value for the public sector. It will not be appropriate to do this in all cases – not least because it may be inappropriate for one government to tie its successor's hands. However, even where the government cannot firmly commit to future contracts, more could still be done to provide greater certainty about government's likely future capital needs. A fixed pipeline, with clear parameters, would provide sufficient certainty for the private sector to invest more and deliver savings over the longer term.

This approach is most effective when projects are standardised – for example, different schools built to broadly the same specification. A failure to do this was a weakness of the BSF, which was more expensive than necessary because each school was designed as a bespoke building. Standardisation might enable the use of modern methods of construction (MMC), where units can be built off site and assembled quickly. DHSC estimates that building hospitals in a more standardised way – 'Hospital 2.0' – will be 25% less expensive and 20% faster than traditional approaches.[68] Standardisation has been a big feature of recent building programmes in schools,[69] prisons[70] and hospitals,[71] although interviewees emphasised that this was more difficult in hospitals than the other two as needs varied across hospitals and the country. These recent developments are positive, but the lack of a more substantive long-term pipeline of work means it has not yet been sufficient to drive big changes in how the private sector operates.

While private sector interviewees were positive about the guidelines set out in *The Construction Playbook*, they identified times when these have not been followed. They suggested that the step most likely to be missed was engaging prospective suppliers early in the process when projects are being scoped, to ensure they are well specified. When this does not happen, private contractors may not bid for tenders, or tenders may need to be revised subsequently.

In the recent inflationary environment, a further issue has been adjusting contracts to acknowledge inflation risk, and ensuring contracts are written in a way that allocates inflationary risk to the most appropriate place. Where contracts had already been signed, in many cases contractors formally bore the risk of unanticipated high inflation. However, most were not able to bear the scale of inflation that emerged in 2022 and 2023 and could have been pushed into administration if government departments had not been willing to renegotiate contracts.

Interviewees reported that many government departments did engage effectively with contractors – working together to rescope plans to deliver agreed projects with limited cost overruns. However, interviewees raised concerns about how the DfE had handled these issues. The department tried to take a harder line on holding contractors to the letter of contracts but that this delayed delivery of projects and undermined relationships with the sector, making it harder to contract for future work. DfE has since revised its approach to contracting for the school rebuilding programme.[72]

4. Recommendations: how to improve capital spending in public services

Problems with the quality of estates, equipment and IT that have accumulated in public services are undoubtedly due, in large part, to low capital spending in public services overall. The problem has become acute. Poor quality capital assets are now hindering the performance of staff and the outcomes of patients, pupils and inmates in hospitals, schools and prisons. And while the current government has increased front-line staff numbers in hospitals, output has not increased commensurately and this is at least in part because those staff have not had adequate capital assets to work with.

If the next government is intent on improving the quality of public services, and improving how productively day-to-day spending can be used, there is a compelling case that **the next multi-year spending review should provide a more capital-intensive mix of spending** than in recent years.

There are no easy choices about how to achieve this. Spending more on capital for public services will require one or more of four things: spending less on economic infrastructure, spending less on day-to-day public service spending, taxing more or borrowing more. As we approach the election, it is clear that none of these is attractive to the main political parties. But it is vital that the new government takes a comprehensive look at spending and taxation in its first multi-year spending review to ensure that the choices made deliver most effectively on the government's priorities.

Beyond this, there are further changes that could be made to ensure that, whatever money is devoted to public services capital, it is allocated and spent most effectively.

Public services themselves should have a clearer focus on long-term capital needs

Too often, capital plans have focused on the period for which the Treasury has set firm departmental budgets, which has rarely extended beyond three or four years. An important step for departments and delivery bodies to prioritise capital spending correctly, and to make bids for spending at spending reviews that are as strong as possible, is a clear understanding of the long-term maintenance and building needs of public services.

Public services like prisons, schools and hospitals should have relatively predictable demand over a longer time horizon based on demographic and other factors and should be able to articulate their capital needs over that longer term, although prisons demand depends on future changes to government sentencing policy and these effects can happen quickly. A longer term plan of this sort would then allow each service to explain why the projects being prioritised now make the most sense to manage the estate effectively over the longer term.

Each service should develop and publish a long-term estates and equipment plan, which sets out the capital needs of the service over the next 10 to 20 years, following the model of the 2023 NHS workforce plan. These plans should:

- be based on clearly stated assumptions about how demand will evolve and how service delivery models are expected to change and a transparent assessment of the state of existing assets

- include estimates of the maintenance spending required to keep the estate in adequate condition, based on objective analysis from the Office of Government Property, as well as the priorities for new buildings and equipment.

In some cases, some of this analysis already happens internally: for example, DfE provided estimates of how much maintenance spending was required to keep the school estate in adequate condition at the 2020 spending review.[1] In other areas, new detailed analysis will be required.

The plans should be regularly updated and a refreshed version should form the starting point for discussions with the Treasury at each multi-year spending review, rather than starting from a zero base. The government might prefer to publish new plans alongside spending allocations, but the plans themselves should be completed before formal negotiations over spending allocations take place.

Publishing the plans should:

- help to raise the salience of decisions around how much to allocate to maintenance and new building and equipment at spending reviews. This should increase the political cost of knowingly allocating too little to maintenance in favour of more politically attractive new projects.

- increase the political cost of failing to fund new buildings and equipment required to meet changing demand and aspirations for better service.

- provide more certainty to the private sector, which will be expected to carry out the required work.

The publication of these plans will be more effective if plans are scrutinised by select committees, so departmental select committees should hold regular sessions with officials and ministers on the state of capital assets and investment plans, including when estates and equipment plans are updated.

Improve the allocation of budgets in spending reviews

For the spending review process to efficiently allocate scarce capital budgets to the projects that will most effectively deliver the government's objectives, **it must be clear at the outset of the spending review what the government's objectives are**. As the Institute has argued elsewhere, at the start of each administration the prime minister should take the lead in the development of a set of 'priorities for government', which should be ambitious and tangible.[2] Those priorities can then help guide decisions made in the spending review about how much capital spending there should be and how it should be allocated.

Those priorities for government should also be accompanied by a set of underpinning principles to guide the government's approach and decision making. These principles could include a statement of the government's attitude towards capital spending, such as a presumption of providing greater year-to-year stability in capital spending and providing multi-year certainty about capital allocations to departments and delivery bodies unless there is a good reason not to.

Provide more long-term certainty

Numerous problems have been caused for departments, delivery bodies and private contractors by the lack of longer term certainty about future capital spending and by boom-and-bust cycles of spending in some areas.

The next government should set plans for five years at the next multi-year spending review, with these plans reviewed after three years. As we have argued elsewhere, there is a good case for doing this for all types of government spending.[3] The case for doing this for capital spending is even stronger, given the long timescales for many capital projects and the need to provide some certainty to private contractors.[4]

Instead of allocating small sums to individual projects, the Treasury and departments should **establish more, larger capital spending programmes** that can be managed together. This includes building and rebuilding programmes, which should be long-running projects managed by stable teams, rather than overlapping fixed-term programmes as has tended to be the case in the past.[5] From the perspective of departments, these kinds of programmes allow for more flexible management, as resources can be reallocated between projects within the same programme – for example, if one project is progressing more quickly than anticipated while another is delayed. It also allows for expertise to be developed and shared across multiple projects. From the point of view of the Treasury, it allows it to provide more strategic support to these types of larger programmes, including through the role of the Infrastructure and Projects Authority (IPA).

The government should also examine whether there are areas where there is a clear ongoing need for regular investment and where it could **provide greater long-term certainty to departments and the private sector by committing to commissioning a certain base level of projects** for some of these larger programmes, without unduly tying the hands of future governments. Demand for many public services should be relatively predictable over the longer term, and there is broad political consensus that public services should continue to be provided in a broadly similar way, so these should not be unduly politically contentious. For example, there seems to be no disagreements between the UK's main political parties in how schooling should be provided and it is reasonably easy to predict future pupil numbers.

The government has provided this sort of longer term certainty in recent years for some specific areas, such as flood defences and coastal erosion projects. Other countries also provide an example of what is possible – for example, the German government has for many years commissioned a regular stream of rail electrification work,[6] in contrast to the start-stop cycles for this type of work that have been common in the UK.

The long-term estates and equipment plan that we propose above should form the basis for longer term plans of this sort for public services.[*] The current government has committed to funding the costs of rebuilding or refurbishing an average of 50 schools a year for 10 years: this is the sort of commitment that could be helpful but a larger programme, and one that did not have a hard end point, could be run more efficiently and provide more certainty to the private sector (enabling the public sector to get better value).

Improve how business cases are constructed and used

It is important that during the spending review process Treasury officials and ministers consider the full business case for capital spending bids: **it is vital that the strategic case and not just the economic case is considered when deciding how to allocate money**. The approach taken by Treasury officials in the most recent spending reviews, taking a wider view than once was the case, must be continued. It is also important that Treasury officials and ministers think about how the suite of capital projects that are funded complement one another, where relevant – for example, within specific local areas. Equally, officials and ministers should also consider how projects may compete with one another for resources within an area or nationally, given limited capacity within the construction sector.

Ministers should also **get advice from a wider range of experts to help prioritise capital spending bids**. While the panel of chief economists can provide challenge and advice on the claimed benefits of projects, they do not have the specific expertise to scrutinise estimated costs and the feasibility of and likely timescale for delivery.[7] Engineering and project management experts should be consulted on these aspects, which are also crucial factors that ministers should consider when deciding whether to fund a project and how to allocate funding over time.

The Treasury should provide additional guidance and support to departments and ALBs to help them produce strong business cases for maintenance. These business cases need to capture any additional costs that would be incurred from delaying maintenance and the impact on service delivery of allowing assets to deteriorate. The business case should also reflect the risks if maintenance work is not carried out.

* A similar recommendation was made by the NAO in its report on improving the prison estate in 2020.

And the business cases should make clear how departments would prioritise their maintenance needs and ensure that business cases for maintenance clearly show how the different options would affect outcomes. To help produce better business cases for maintenance, **departments should systematically gather and share evidence on the costs of delayed maintenance and the ways that poor quality capital assets undermine the ability of staff to work productively**, and the Treasury should take a lead in highlighting and sharing this information.

It is currently very opaque how decisions are made about allocating capital spending and what the implications of those decisions are.

Ideally **the material supporting submissions to the spending review process for capital programmes that are funded should be published**. This would help departments to understand how different proposals had been prioritised. **Departments should also publish final business cases for all approved projects.** The publication of both these things would help parliamentary select committees to scrutinise the government's decisions and the departments' delivery against the plan. The government has previously committed to publishing the business cases for all approved major projects, but none has yet been forthcoming.*

The decision to publish or not ultimately rests with the relevant secretary of state, who can be nervous of making this information public, though over time it should help to increase the quality and accuracy of business cases and the likelihood that enough money is allocated to projects, over the appropriate timescale, from the outset. **Departmental select committees should incentivise secretaries of state to meet these publication requirements by asking them explicitly about this when they give evidence.**

It is currently too easy for ministers to underfund maintenance without acknowledging or being held to account for the costs of those decisions. While spending review documents will typically trumpet the amount of money allocated to deliver new capacity, they will never spell out the expected impact of a choice not to spend on maintenance. In future spending reviews, each department's settlement should make clear **how the amount allocated for maintenance compares to what the department thought was necessary to properly maintain (and, where necessary, restore) the existing capital stock**. To make this feasible, it would be necessary to define what standard of repair assets should be maintained at; government had to include similar definitions in contracts signed with the private sector for the maintenance of buildings under PFI.

* See, for example, page 12 of https://committees.parliament.uk/publications/4491/documents/45207/default

If there is a shortfall, each department should make clear:*

- what the impact of this is expected to be on the public service estate and the delivery of services
- how it will prioritise the allocation of funding across the estate to mitigate the impacts
- what the implications are for spending that is likely to be required in future spending review periods.

Delegate decision making to an appropriate local level

Some capital decisions are best taken by central government, especially major building and rebuilding programmes, where departments need to take a strategic view across the whole country. However, other decisions will be more effective when taken closer to the front line, where knowledge of capital needs is more detailed, but still at a level that has the capacity and perspective to strategically target the highest priority cases. In the NHS, ICBs sit at just such an appropriate strategic level. However, within the schools system, DfE only judges a minority of MATs to be of sufficient scale to make these strategic decisions, and decisions about capital spending in the prisons system are very centralised.

In all three services, departments should assess what role capital spending delivery bodies currently play.

In the NHS by default capital spending should be allocated to ICBs via a formula to spend on local priorities. Exceptions should include the building of major hospitals and large scale redevelopment of existing ones and areas where central government has strong evidence that a particular approach will be most effective everywhere in the country. However, relative to the status quo this would mean more funding, for example for elective recovery, being allocated via a formula rather than competition. Central government could still set clear outcomes that funding should achieve, but these would generally be delivered more effectively by giving ICBs flexibility to identify the right projects.

* There may be good reasons for not fully maintaining the existing estate: for example, some Victorian hospitals and prisons are very costly to maintain and are no longer well-suited to modern service delivery so it may be more cost effective to build a replacement than to maintain the existing asset, or it may simply have been decided that another capital project offered better value for money with a limited budget. But it is important than these choices are made transparent.

In schools and prisons, where the governance model is more atomised, further flexibility within current structures would not necessarily be appropriate. However, **the departments should make competitive bidding processes more effective** by:

- providing clear criteria in advance of bids
- providing clear feedback on unsuccessful bids, to help organisations plan effectively
- in some cases, providing additional funding and expert capacity to ensure delivery bodies can develop bids well.

For ICBs, larger MATs and local authorities, departments should set out formula-determined funding allocations that cover the full length of spending reviews, rather than offering these bodies only single-year settlements. For other funding pots that are available to delivery organisations, departments should also provide allocations for all years covered by the current spending review. There would still be flexibility for the department to change other elements of the capital budget, but committing to these funding levels would help competent delivery bodies to plan effectively and allow them to develop a firmer pipeline of work and deliver multi-year maintenance projects where appropriate.

Across all three services, **departments should better understand and support capacity in subnational organisations**, especially where it is not currently sufficient to allow for more decentralisation of funding to a more appropriate local level:

- ICBs still have variable capacity, so additional flexibility in funding should come with additional support, including the sharing of best practice on how to allocate capital spending.
- **DfE and HMPPS should retain central estates management resource and make these available to delivery organisations to help identify priority projects**, akin to the sort of procurement support that is available to schools,[8] and provide additional capacity-building funding.[9]

Get better value from contracts with the private sector

As well as allocating money effectively, services need to ensure the money is spent well by delivering projects efficiently in partnership with the private sector. **Departments should follow *The Construction Playbook* more closely**, especially by engaging prospective suppliers at the early stages of project development. As the Institute for Government has argued previously, the government should also continue to ensure that it has sufficient commercial contracting expertise in house to do this well.[10,11]

A longer term pipeline for projects, recommended above, would help the private sector to set itself up to deliver public sector projects more efficiently both in terms of cost and time. To capitalise on this, **the government should continue to standardise building design wherever possible**, making use of modern methods of construction to deliver time and cost savings, with the Infrastructure and Projects Authority championing this across government, where appropriate, and building central expertise to support other departments. The **IPA should also continue to collate cost estimates and outturns from past projects and encourage departments to use these** to improve future cost estimates to ensure business cases are realistic.[12]

Improve scrutiny of ministers and accounting officers for their stewardship of the public estate

Accountability for asset management

Accounting officers are expected to have an asset management strategy setting out how the department "acquires, maintains, tracks, deploys and disposes of the various kinds of assets it uses". They also have a duty to ensure value for money, which would be undermined if departments were knowingly under-maintaining assets in a way that will make necessary maintenance more expensive later.[13] **Departmental select committees should hold evidence sessions once a year with ministers and permanent secretaries to discuss departments' approaches to managing their assets.** The Public Accounts Committee (supported by analysis from the NAO) should also periodically scrutinise accounting officers on this topic when they are giving evidence. These sessions should include examining:

- how the extent and quality of the estate has changed since the last evidence session
- how much the department has spent on maintenance and how this compared to the original plans
- what the department's plans are for future maintenance spending
- why the department has chosen the balance it has between maintaining existing assets and developing new ones.

Treasury spending teams should also hold departments to account for their management and maintenance of their assets.

Department boards and other relevant ALB boards (such as NHS England) should include estates maintenance and development as a standing item on their agenda to ensure they allocate time to these important strategic questions.

The Treasury's *Managing Public Money* guidelines currently require accounting officers to seek ministerial direction if the minister wants to spend money in a way that the accounting officer judges does not comply with good principles of regularity, propriety, value for money and feasibility. However, a decision *not* to spend money on capital could also reflect poor value for money. For example, failing to spend on maintenance in a timely manner could increase the cost of remedial action. *Managing Public Money* guidance should be updated to make clear that **accounting officers should ask for a ministerial direction** if they believe that a decision not to maintain assets reflects poor value for public money in the longer term.

Accountability for underspending

Scrutiny of spending needs to be rebalanced away from an excessive focus on avoiding underspends towards a more balanced approach to ensuring that departments effectively allocate all of their budgets. To do this, **departmental select committees should ask permanent secretaries and ministers to account for any significant underspends against planned budgets** in the same way that they do for overspends. Committees should also challenge departments to show they have achieved value for money if a large fraction of spending is done towards the end of the financial year. The Public Accounts Committee (supported by analysis from the NAO) should also probe underspending and late allocations of capital funding.

As well as holding departments to account for not overspending their budgets, Treasury spending teams should also work with departments to understand and **tackle underspending of capital budgets** and any tendencies to allocate a disproportionate amount of funding late in the financial year.

Improve capital spending oversight

To provide greater clarity about the budgets allocated to the largest public service capital programmes and improve scrutiny of these allocations, these **major programmes' budgets should be listed separately from their parent department in Treasury documents** – such as at spending reviews, budgets and in annual public expenditure statistical analyses. The Treasury should provide annual budget figures for both revenue and capital allocations for these programmes.

This approach (like the one taken for the project to deliver the London Olympics)[14] would enable people inside and outside government to see clearly how much money has been allocated and to understand what changes are made to either the timing or overall size of the allocated budget. Even where these programmes are due to run beyond the current spending review period or the normal five-year forecasting period, ideally the Treasury should spell out expected budget allocations for all years of the programme.

Conclusion

The poor state of capital – from buildings to IT and equipment – is hampering the performance of key public services. Patients are languishing on waiting lists, prisoners kept in overcrowded cells and failing to receive rehabilitation courses, and some pupils are being taught in poor conditions. These are due, at least in part, to the fact that the infrastructure and machinery available to deliver these services has not been properly maintained or adequately expanded.

There is a compelling case that the next multi-year spending review should provide a more capital-intensive mix of spending than in recent years. But it is not just a case of *how much* but also *how*: change is required to ensure that whatever money is spent is spent well. With whoever wins the 2024 election facing a very difficult fiscal inheritance, it will be vital for the government to ensure that this happens.

There is scope for ministers, select committees, the Treasury, central government departments and their delivery bodies all to take a different approach to achieve better outcomes, following the recommendations in this report. The start of a new parliament, alongside a new multi-year spending review that will take place this year or next, offers the opportunity and impetus to do this.

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Recommendations: how to improve capital spending in public services

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