Rt Hon Rachel Reeves MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
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20 October 2024

THE BUDGET: SPENDING ON PREVENTION

Dear Chancellor,

We are heartened by reports that you are considering using your forthcoming Budget to announce changes to the government's fiscal rules to encourage more capital spending. This is essential to provide much needed investment in public infrastructure, after a long period during which short-term thinking has prevailed and the UK has become an international outlier in its relatively low level of capital spending. In healthcare alone, the Health Foundation estimates that between 2010 and 2019, the UK would have invested £33 billion more in capital had we matched the average across the EU-14.

We also strongly welcome the emphasis the new government has placed on prevention in health, crime and other public services. However, there is a long history of governments making similar promises, only for spending on prevention to become a casualty of pressures on day-to-day budgets and a victim of short-term thinking. New analysis by the Health Foundation shows that, for the five years before the pandemic (2014-19), government spending on healthcare prevention fell by 2% in real terms, while spending on hospitals rose by 10%. Overall, the share of health spending devoted to prevention fell by 10% during this period.

Public policy is littered with examples of prevention spending being cut to provide short-term funding to patch up front-line services, and there is too little incentive to invest in services that deliver long-term benefits. For example, despite good evidence for the long-term impact of youth services and Sure Start, Institute for Government research has found that local authority spending on these services was cut by more than three quarters (2009-23), while spending on looked after children and safeguarding services rose by more than half over the same period.

Current fiscal frameworks do not distinguish between spending on acute services and prevention, despite the evidence that investment in prevention can deliver a greater long-term return. Given the significant pressures on the public finances, the risk is that prevention spending will continue to be squeezed out in favour of meeting short term needs, undermining the government's commitment to taking a long-term, prevention-led approach to improving public services.

As you will be aware, the same thing used to happen to capital budgets, which is why the then Chancellor, Gordon Brown, introduced the split between capital and revenue expenditure in 1998. The creation of the RDEL/CDEL split enabled the government to better track capital expenditure and boost long term investment.

Our organisations therefore support proposals to strengthen the fiscal framework to promote spending on prevention. Demos and the Health Foundation have proposed a new category within Department Expenditure Limits - Preventative Departmental Expenditure Limits (PDEL). This would see prevention sit alongside revenue spending and capital investment, enabling the government to identify and track spending. The Institute for Government have also put forward proposals for embedding prevention in the public spending framework by using the budget and spending review process to define and ringfence prevention spending. CIPFA are also currently working with the Health Foundation to develop a methodology to identify local government spending on prevention.

Strengthening the fiscal framework would enable the Treasury to better hold government departments to account for long term investment in prevention, and support mission-driven government by ensuring that this money is used to transform services. Without this, we fear the government's good intentions to promote prevention may once again fall by the wayside. We therefore urge you to use your forthcoming Budget to begin addressing this.

Yours sincerely,

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