DEMOS

The Health Foundation

COUNTING WHAT MATTERS

HOW TO CLASSIFY, ACCOUNT AND TRACK SPENDING FOR PREVENTION

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CONTENTS

CONTEXT

In October 2023 Demos, in collaboration with the Health Foundation, published a paper *Revenue, Capital, Prevention: A New Public Spending Framework for the Future.*[1] The paper called for the creation of a new classification of public expenditure, *Preventative Departmental Expenditure Limits (PDEL)*. PDEL would sit alongside the existing classifications of expenditure, Capital Departmental Expenditure Limits (CDEL) and Revenue Departmental Expenditure Limits (RDEL). The aim would be to identify expenditure on prevention and 'ring-fence' that spending to encourage the 'shift to prevention' which many have called for within public spending. The paper sought to create a new institutional architecture for the implementation of PDEL including:

1. The creation of a Preventative Expenditure Working Group (PEWG) to look at developing a definition of preventative expenditure in line with associated accounting standards and the development of guidance.
2. The creation of a Preventative Investment Unit (PIU) within HM Treasury to apply the classification across department budgets and support the implementation of PDEL into budgets and spending reviews.
3. The passage of a *Public Investment Act* to create a target for preventative expenditure and to monitor its achievement.
4. Develop a Preventative Investment Challenge (PIC) to fund the development of preventative programmes across government departments, What Works Centres, civil society organisations, social enterprises and other entities building on the success of innovations such as Shared Outcome Funds.[2]

There has been widespread support for this shift in public services towards prevention enabled by a new accounting mechanism, but concerns about both the feasibility of measuring preventative spending accurately and appropriately but also that ring-fencing alone may not lead to the desired improvements in outcomes and value for money. This paper explores the challenge of measurement. A second paper, looking at how to shift the culture of public bodies to think 'prevention first' and target spending at activities which are value for money and improve outcomes, is published alongside this.

1 A O'Brien et al, Revenue, Capital, Prevention: A New Public Spending Framework for the Future, Demos, October 2023
2 Big Society Capital, Outcomes for All: 10 Years of Social Outcomes Contracts, June 2022

OVERVIEW

Prevention DEL must be capable of institutionalisation and implementation. PDEL must be able to work across multiple service areas and enable the development of consistent taxonomies of preventative expenditure which are strategically useful.

This paper:

- Analyses the current constitutional and operational framework for public expenditure and finds that it is possible to integrate PDEL within it.
- Considers three expenditure areas (health, homelessness and children's social care) and finds varying levels of maturity in developing taxonomies for prevention.
- Outlines how implementation of PDEL could work within the inconsistencies and varying levels of maturity within prevention and expand to cover all aspects of prevention over time.

KEY FINDINGS

- In health, prevention spending is already measured in the ONS UK system of health accounts and those data are reported to OECD for cross country comparisons.
- Until 2013 prevention health spending was also identified in the NHS programme budgeting data.
- A series of 'pathfinding' departments should work with HM Treasury to undertake *Preventative Expenditure Audits* (PEA) to map existing, as in the case of health, or new, as in the case of children's social care, taxonomies of preventative expenditure and create a baseline of PDEL expenditure and pilot the approach.
- That approach should build on the primary, secondary and tertiary prevention taxonomy - a standard method of defining preventative activity.
- PDEL should focus on primary and secondary prevention to reduce the risk of gaming whereby services to meet acute need could be reclassified as prevention.
- PDEL should focus on expenditure whose principal goal is prevention.
- PDEL will need to be a composite of both RDEL and CDEL for accounting purposes.
- The learnings should be distilled into a new 'Colour Book' (The Purple Book) to help departments implement PDEL classifications into their spending areas and public bodies.
- NAO and the PAC should be given a role in providing strategic oversight of the development of PDEL to meet constitutional and accounting guidelines.
- Each of the cross-government Mission Control Boards should meet together as part of a *Preventative Investment Taskforce* to coordinate government policy towards prevention and feed into the spending review, chaired by the Chief Secretary to the Treasury.

THE PREVENTION MEASUREMENT CHALLENGE

PUBLIC SPENDING CLASSIFICATIONS

One of the challenges for elevating prevention within public spending are the definitional complexities. A recent paper by the Institute for Government said it would not have a "neat definition of prevention - we do not think there is one. There is not an obvious objective way of distinguishing between acute and preventative services, policies and programmes".[3]

In this paper, we take the working definition of prevention as being related to activities or investments that increase the resilience of individuals and communities and lead to avoidance (or reduced risk) of negative outcomes. This definition is intentionally broad because this paper covers a broad range of service areas. For example, in health, prevention would be healthy lives and avoidance of illness. In homelessness, prevention would be linked to providing secure and stable housing. In children service's it would be improving educational and employment outcomes and avoiding homelessness, crime or other negative outcomes.

The complexities of dealing with prevention contrasts with concepts of capital and revenue expenditure which are commonly accepted financial measures and are well defined. However, having a clearer definition of a concept does not necessarily lead to its implementation at a policy level. Moreover, even concepts such as 'capital expenditure' can be complicated to administer at a practical level.

Despite the current definition of capital expenditure being accepted within accounting and economic discourse for at least three hundred years,[4] central government only started to strategically define capital expenditure for the purpose of resource allocation in the late 1990s.[5] In the *longue durée* of government accounting, reporting on capital expenditure is a recent phenomenon.

3 S. Hoddinott et al, A preventative approach to public services, Institute for Government, May 2024
4 G. Hodgson, What is capital? Economists and sociologists have changed its meaning: should it be changed back?, Cambridge Journal of Economics, 2014
5 HM Treasury, Economic and Fiscal Strategy Report, June 1998

Ultimately, the decision by the government to classify a form of expenditure is a policy consideration as much as a technical one. This was a point highlighted in evidence given to the Treasury Select Committee when the capital/current expenditure split was first proposed.[6]

The classification of expenditure must be presentable in a way that can advance a significant important policy goal to justify the effort of measuring and tracking this form of expenditure. In the case of capital expenditure demarcation in 1998, there was a clear policy need to rebalance UK public spending towards investing in capital after nearly two decades of significant reductions in capital expenditure. In the case of prevention, there is a similar strategic dimension. Like capital investment, investment in prevention has been squeezed for over a decade. For example, spending on 'preventative' services for children had fallen by 78% in real terms since 2009/10.[7] The public health grant has fallen by 28% on a real-terms per capita basis since 2015/16.[8] Between 2008/09 and 2018/19, spending on support services (including prevention) in homelessness has fallen by nearly £1bn.[9]

Just as with capital expenditure, therefore, it is important that the classification of preventative expenditure is able to influence the allocation of resources. This was one of the reasons that the CDEL/RDEL split was made in 1998, to provide information "to enable policy to be judged and monitored" and hold the government to account.[10] In the case of CDEL, this was achieved through giving it a significant level of prominence, for example through Spending Review documents and the Chancellor's speeches. If CDEL had lacked this prominence and had only been used at a technical level, it is doubtful whether it would have had a significant impact on the overall allocation of public spending.

It's therefore important that PDEL is embedded at the highest level of policy making. The Spending Review should, alongside a preparation of resource and capital needs over the period, include a clear assessment and target of preventative expenditure.

PDEL AND MISSION-DRIVEN GOVERNMENT

The new government is pioneering a new approach to governance, 'mission-driven government'. According to Labour's 2024 manifesto, mission-driven government *"means a new way of doing government that is more joined up, pushes power out to communities and harnesses new technology, all with one aim in mind – to put the country back in the service of working people."*[11]

Joined up government has been called for many times before but requires new institutional levers to drive change. PDEL could be one of those levers and will be the subject of our next paper on PDEL can change the culture of policy making within government.

As noted in this section, to justify the creation of PDEL and overcoming operational challenges, it needs to align with the government's commitment to mission-driven government. PDEL can achieve this in three significant ways:

6 See Professor David Heald's evidence to the Treasury Select Committee, given on the 9th July 1998, for its Eighth Report - The New Fiscal Framework and Comprehensive Spending Review - Volume I, 29 July 1998
7 S. Hoddinott et al, A preventative approach to public services, Institute for Government, May 2024
8 D. Finch et al, Investing in the public health grant: what it is and why greater investment is needed, The Health Foundation, 8 April 2024
9 M. Oakley & C. Bovill-Rose, Local authority spending on homelessness, WPI Economics, February 2020
10 HM Treasury, Fiscal Policy: Current and Capital Spending, 1998
11 Labour Party, Change - General Election Manifesto 2024, June 2024

1. **Tracking and measuring activity across government** - central to joining up government is being able to monitor the flow of funding towards key priorities. PDEL would provide greater oversight across departments and, eventually, through to the local level.
2. **Creating opportunities for long term partnership** - through better monitoring of spend the public, private and civil society sectors can have greater confidence in partnership to deliver long term preventative investment. It would also give communities the opportunity to mobilise their resources with the confidence about long term commitment from government.
3. **Encouraging innovation** - as noted in our original paper, certainty around the scale of prevention expenditure (and efforts to increase it over time) will encourage providers in the public, private and civil society sector to develop new approaches to boost outcomes.

As a consequence, there is a strong case to make that mission-driven government would be enhanced through the creation of new mechanisms such as PDEL.

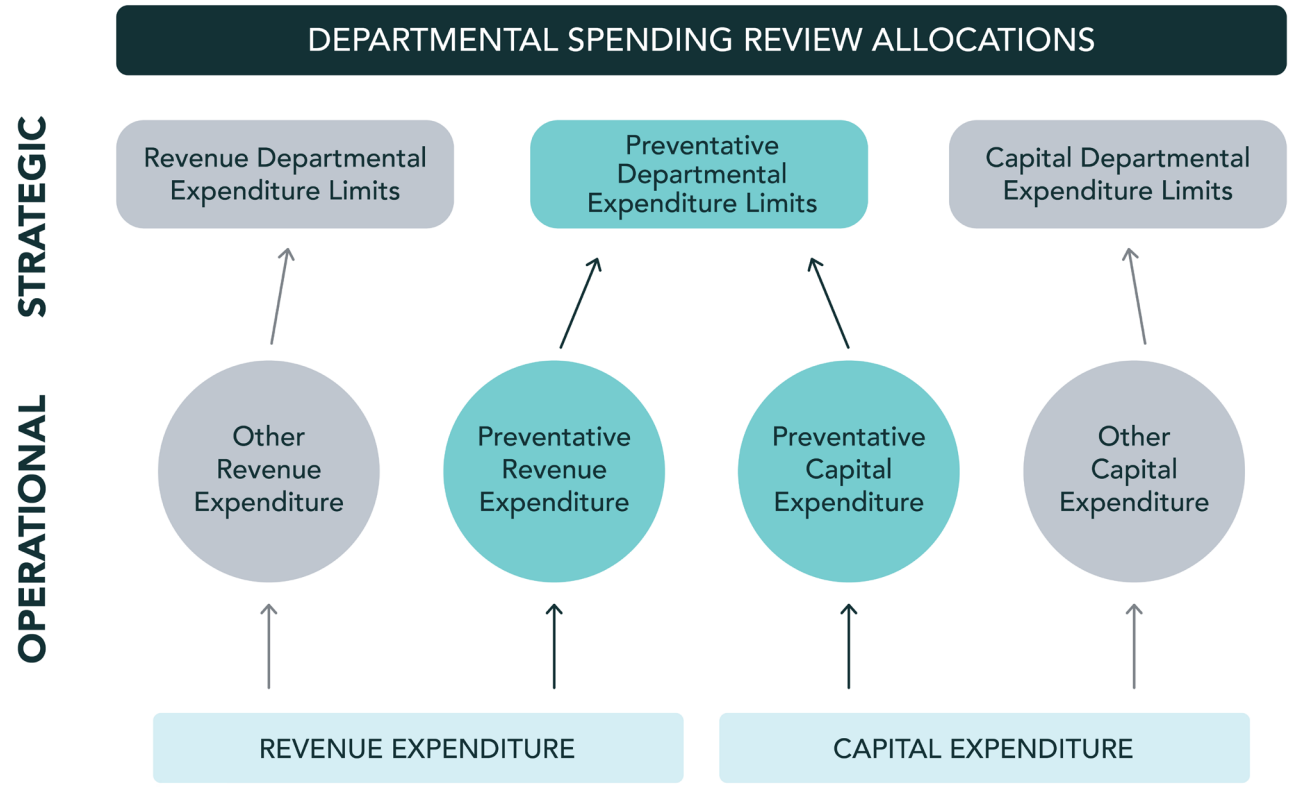
That is only possible if it is practically possible to delineate, measure and track the prevention expenditure in a way that is consistent over time and between public services. Although there are areas where revenue and capital expenditure distinctions may blur (e.g. maintaining capital assets, IT software, cloud storage and operational leases), overall, it is possible to distinguish between the two forms of expenditure at a practical level. As we will discuss in this paper, there is also a globally accepted set of standards on reporting on public expenditure which makes allowance for capital expenditure and enables it to be extracted from government accounts. In 1998, the CDEL/RDEL split was facilitated through the system of rules around the preparation of national accounts that already required a capital/current expenditure demarcation.

Schematically, prevention is different in that it will include both CDEL and RDEL elements to it, although it will mostly be weighted towards revenue expenditure. As a composite there is a danger that it may not be given the prominence awarded to discussions about the balance between revenue and capital expenditure which is a regular feature of discussions about the public finances.[12] Unless preventative expenditure is able to exercise a level of operational distinctiveness, it may not be possible for it to be conceptually sustainable. However, as noted above, achieving operational practicability must not undermine the strategic goal of creating a classification of preventative expenditure.

PDEL's effectiveness will rest upon the operational feasibility of distinguishing preventative expenditure as an element of both revenue and capital expenditure.

12 See M. Brooker, It Takes Some Money to Fix the UK's Foundations, Bloomberg UK, 31 July 2024

FIGURE 1
PDEL & PREVENTATIVE EXPENDITURE CLASSIFICATION



Source: Demos analysis

PDEL would need to be given co-equal prominence to both capital and revenue expenditure within spending review processes and presentation documents (e.g. Parliamentary Estimates, Spending Review, Budget, Office for Budget Responsibility, Economic and Fiscal Forecasts etc.). PDEL is, in essence, a strategic policy decision with the goal of shifting spend towards long-term prevention. PDEL rests, however, on preventative expenditure accounted for as a subset of both CDEL and RDEL. PDEL will be calculated from the combination of preventative CDEL and preventative RDEL. Over time, it may be that preventative expenditure itself becomes an internationally recognised classification of overall government expenditure (as it is in areas such as health)[13] but for the time being it will need to work within existing frameworks. The composition of both capital (building and investment in infrastructure to deliver prevention) and revenue (to fund the maintenance and delivery of preventative services) is not, as we will find later in this paper, an insurmountable barrier provided that there are effective classification and tagging procedures.

13 OECD et al, A System of Health Accounts 2011 - revised edition, OECD, 2017

THE PREVENTION MEASUREMENT CHALLENGE

TYPES OF PREVENTION ACTIVITY

As above, we take the working definition of prevention as being related to activities or investments that increase the resilience of individuals and communities and lead to avoidance (or reduced risk) of negative outcomes. However, within this, there are different types of prevention.

Prevention interventions are traditionally grouped into three main categories:

- **Primary prevention:** reducing the incidence of problems within the population by removing or reducing risks.
- **Secondary prevention:** detecting problems in their early stages and intervening before problems develop.
- **Tertiary prevention:** reducing the impact of problems. This is done by helping people manage long-term, complex problems to improve their ability to function in society and their quality of life.

For primary prevention, many of the risk factors are associated with the social, economic or environmental conditions in which people live, such as housing, employment, education, crime, parks and green spaces. These are influenced by overall capital and revenue spending on public services. Beyond public services, government spending on welfare will affect poverty rates which in turn is a key risk factor for most of the outcomes prevention strategies are seeking to address. In the case of tertiary prevention, the boundary between prevention and intervention to meet immediate need is not clear cut.

Primary, secondary and tertiary levels of prevention also do not cover another level of prevention - foundational prevention (sometimes called primordial prevention in health settings). In *The Preventative State*, Demos argued that our local, social and civic infrastructure plays a critical role in making a preventative shift. Unfortunately, as these are often operated by actors outside of the state and focused on long-term prevention, they are the first to be cut in the midst of financial challenge or passed over for other state-governed institutions.[14]

These institutions create social capital which is critical in improving population health. For example, obesity already costs the NHS £6bn a year and is likely to rise to £10bn by 2050.[15] Analysis of social capital within US states found that higher levels of social capital were linked to greater levels of physical activity and suggested that interventions to increase social capital could help to tackle growing levels of obesity.[16] Again, research has found that higher levels of social capital lead people to undertake activities which help to manage their weight and reduce the prevalence of obesity. A study of social capital and obesity across the US found that higher levels of social capital tackle obesity through encouraging weight-control methods such as active exercise and dieting.[17] Foundational prevention is about supporting social infrastructure that generates the social capital which enables people to lead healthy lives. Measures to tackle poverty could also be a long-term form of prevention, particularly if the intent of that poverty reduction can also be found to be preventative in the long term. We can call this 'economic prevention', to differentiate it from foundational approaches.

The challenge in health, and other settings, is that the institutions delivering foundational prevention often do not realise that this is what they are doing or, if they do, it is not their primary purpose. For example, is a village hall which houses a local choir and organises trips for local residents, being preventative? This is why in the short-term it is not practical for PDEL to cover *all* forms of prevention, including foundational prevention. However, if we are to truly shift towards building a 'preventative state', we will need to ensure that foundational prevention is able to be effectively resourced and investment tracked.

Recognising these measurement challenges it's important to focus on the strategic policy objective of a new PDEL category of public spending. PDEL cannot be a replacement for a whole of government strategy for prevention which addresses all of the different levers; regulation, targets, economic policy and poverty reduction.

Whilst there is consensus that prevention is something we should aim for, there are risks with prevention which need to be considered from the outset. For example, prevention is often broadly delivered and it is not always clear who will specifically benefit from an activity. As a consequence, making the case for preventative investment where there are other more 'retail' policy offers which can appeal to specific groups or places can be challenging. PDEL will not necessarily remove that temptation, but it would make it harder for policy makers to avoid the consequences.

Moreover, prevention should not be judged purely on cashable savings, something that we have avoided in this paper and others. Although in some areas, for example, homelessness, it could be argued that cashable savings can be linked to prevention (the cost of a programme versus the cost of emergency accommodation, for example). In other areas, however, prevention helps people to manage a problem and avoid even larger costs in the future. For example, in health, prevention may shift someone from one service to another, without significant differences in cost.

14 A O'Brien et al, The Preventative State: Rebuilding our Local, Social and Civic Foundations, April 2023
15 Public Health England, Health matters: obesity and the food environment, 31 March 2017
16 D. Kim et al, US state- and county-level social capital in relation to obesity and physical inactivity: A multilevel, multivariable analysis, Social Science & Medicine, August 2006
17 J. Yoon & T. Brown, Does the promotion of community social capital reduce obesity risk?, The Journal of Socio-Economics, May 2011

The overall level of public service spending, its geographical targeting and the welfare budget will play critical roles in a wider prevention strategy. Within such a framework specific, well evidenced, cost-effective interventions by public services can play a role. A new category of ring-fenced transparent spending on prevention within the overall departmental expenditure limits for public services could help to ensure that these activities are prioritised. There is a case therefore for PDEL being relatively tightly focused at least in the first instance on those activities whose primary purpose is prevention of an avoidable harm for which there is a well evidenced, cost-effective public service intervention.

This paper considers three policy areas (health, homelessness and children's care) where there is increasing focus on prevention but varying degrees of standardisation in terms of the classification of expenditure. It explores how a consistent and practical approach to measuring prevention expenditure might be developed using this focused definition of prevention.

PREVENTATIVE EXPENDITURE AND HEALTH

One area of public sector expenditure with a level of international standardisation and domestic reporting of preventative expenditure is in health. On this basis, there are good reasons for health and the Department for Health and Social Care to be one of the 'pathfinders' to develop PDEL.

The ONS publishes the UK Health Accounts on an annual basis, with the latest accounts covering the period 2022-23. These are produced using the System of Health Accounts (SHA) 2011 which was developed and overseen by the OECD, World Health Organisation and European Com.[18] The SHA's classification of preventative expenditure[19] mainly covers primary and secondary forms of prevention as shown in Table 1 below.[20]

TABLE 1
SYSTEM OF HEALTH ACCOUNTS CATEGORIES OF PREVENTION SPENDING

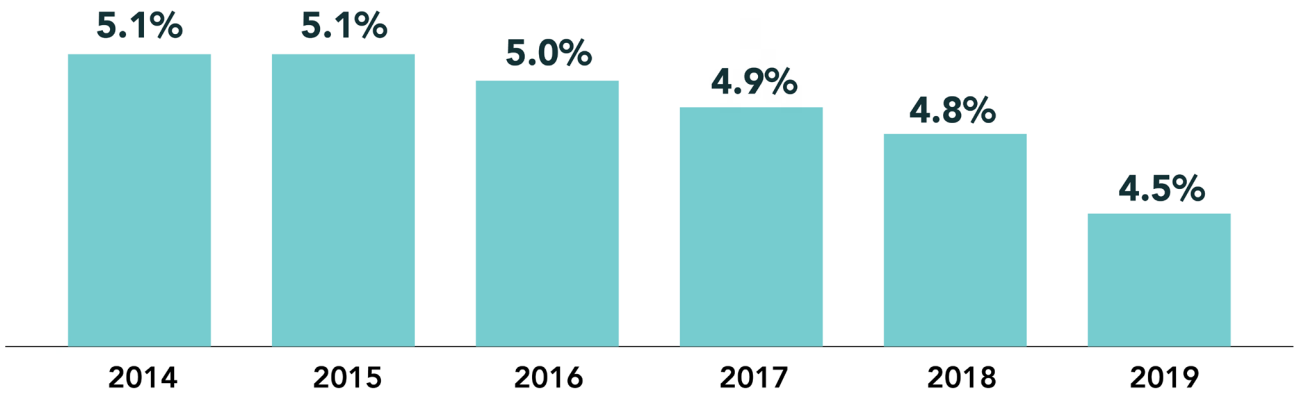
PRIMARY PREVENTION	SECONDARY PREVENTION	TERTIARY PREVENTION
Information, education and counselling programmes	Early disease detection programmes	*Healthy condition monitoring programmes**
Immunisation programmes	*Healthy condition monitoring programmes**	
Preparing for disaster and emergency response programmes	Epidemiological surveillance and risk and disease control programmes	

**could be defined as tertiary prevention depending on when in the cycle of treatment the condition is identified and the goal of the monitoring (e.g. diabetes management)*
Source: Demos analysis

18 OECD, A System of Health Accounts: 2011 Edition, October 2011
19 The SHA refers to "preventive" expenditure, however, we use the term "preventative" throughout to keep the language clear
20 Using Leavell and Clark's 'three levels of prevention framework'

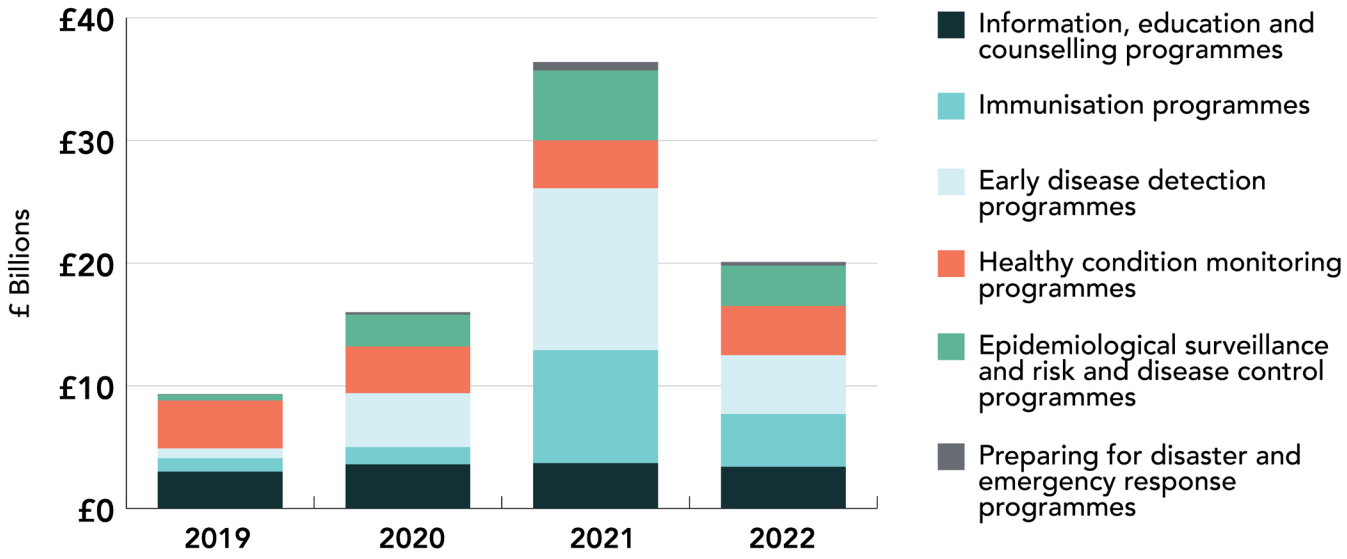
The ONS then categorises and develops this expenditure for the UK and publishes annual health accounts. In 2019 – the last full year before the pandemic – government funded prevention spending was just over £8 billion (2023/24 prices). This was a 2% real term reduction in prevention spending compared with 2014. Over the 5 years before the pandemic overall government health spending increased by 10%. As a result, the share of UK government health spending allocated to prevention activities fell from just over 5% to 4.5%. The primary prevention programmes providing information, education and counselling fell by almost a fifth in real terms in the 5 years before the pandemic and epidemiological surveillance and risk and disease control programmes fell by 7% in real terms.

CHART 1
PREVENTION AS SHARE OF TOTAL GOVERNMENT SPENDING 2014-2019



The pandemic then saw a significant increase in prevention spending; notably on vaccines and testing. Figure 2 below sets out the change in spending with the pandemic. However, this is unlikely to be sustained longer term as the biggest growth was in temporary expenditure related to the pandemic (e.g. test and trace) .

CHART 2
UK HEALTH ACCOUNTS - PREVENTATIVE EXPENDITURE 2022-23



Source: ONS

This information is useful for helping us to understand developments in preventative expenditure.

A significant limiting factor in the need for SHA guidance is the need for it to be applicable across a large number of different countries with different healthcare systems, different economic conditions, different geographies and different demographics. For example, countries which have significantly older populations (e.g. Japan and Italy) are likely to put significantly greater emphasis on tertiary prevention than countries which have much younger populations. Poorer countries may also lack the resources to be able to significantly invest in tertiary prevention and, if operating in tropical environments, may have to focus on primary prevention due to the prevalence of infectious diseases. As a consequence, there may be large parts of the world where there is not significant expenditure on tertiary expenditure and may not reach levels that make the effort of separating them for accounting purposes.

There is also a constant challenge in delineating the different aspects of prevention and separating it from consumption of healthcare services. In essence, how is prevention defined? Is it the *impact* of the expenditure or the *purpose* of the expenditure that defines expenditure? The impact of expenditure is clearly problematic from an accounting perspective both because tracking the impact of expenditure is extremely difficult and even if possible, an activity can be intended to be preventative but fail to have an impact. The SHA therefore focuses on the *purpose* of expenditure in order to identify whether it is preventative. The same is likely to be necessary for PDEL.

However, health expenditure, like any form of expenditure, can have multiple purposes. For example, running a community health hub may have multiple outcomes in mind, from providing a convenient place for local residents to access primary care services, as well as running activity classes to tackle obesity. What is the primary purpose of this expenditure? Ultimately, for the purposes of accounting, an allocation has to be made and the UK Health Accounts indicates that this is possible.

PDEL & SOCIAL PRESCRIBING

Social prescribing – sometimes referred to as community referral – is a means of enabling GPs, nurses and other health and care professionals to refer people to a range of local, non-clinical services.

Recognising that people's health is determined primarily by a range of social, economic and environmental factors, social prescribing seeks to address people's needs in a holistic way. It also aims to support individuals to take greater control of their own health. Social prescribing falls into all three categories of prevention.

The administrative challenge is that schemes can involve a variety of activities which are typically provided by voluntary and community sector organisations. Examples include volunteering, arts activities, group learning, gardening, befriending, cookery, healthy eating advice and a range of sports. In some cases social prescribing is effectively a subsidy to continue those activities, the 'purpose' of the overall social prescribing activity may also not always be clear. This could create challenges for accounting if it is outcomes based rather than, as we have proposed, intention based measurement.

For the purpose of PDEL, social prescribing activity should be possible to include into the monitoring and tracking of prevention expenditure, but will require commissioners to ensure that they effectively track levels of expenditure that is linked to prevention. It would also be useful to provide guidance to social prescribing providers to ensure that they understand how their work fits into a preventative approach and can assist commissioners in allocating costs accordingly.

For new services, the development of PDEL would be aided by clarifying the purpose of new expenditure items as part of the impact assessment process. To begin, this could be achieved through merely stating whether expenditure is preventative under the definition established by HM Treasury - a simple yes/no system. This would not add excessive burden as impact assessments are already required for most policy decisions.

We recommend a series of 'Preventative Expenditure Audits' (PEA) for existing government expenditure. This would not be a historical exercise (i.e. seeking to identify whether HM Government intended for X expenditure to be preventative) but to give a view on whether the *current* government sees the activity as preventative. This is partly because any historical reflection on the preventative expenditure is likely to be subjective but also because in some cases it is hard to find clear evidence as to whether a policy was designed to achieve a certain outcome. This is particularly true with services (e.g. primary care) where the policy intervention goes back decades to when concepts of prevention were not widely understood.

Preventative activities do not operate in a vacuum. It will be necessary in some cases (such as primary care) to make an allocative split on expenditure between non-preventive and preventative activity. For example, a GP surgery may carry out primary, secondary and tertiary preventative activities as well as acute and reactive services. An allocative split, based on an audit of a representative sample of GP surgeries, may be necessary as well as appropriate funding for maintaining the physical infrastructure that houses the GP surgery. The same is true for many trusts and foundation trusts. These allocative splits would need to feed into any Preventative Expenditure Audit undertaken by the Department for Health and Social Care. For this reason, PDEL will need to include elements of capital and current spending and be a composite of both CDEL and RDEL. To focus on merely one aspect (capital or current) would reduce the strategic utility of PDEL.

More importantly, while it is essential for assessment and audit to take place from a practical level, it must serve some wider purpose to justify the time and effort expended. The question is whether allocating certain types of expenditure as preventative or not-preventative adds wider value beyond enabling classification to take place. In *Revenue, Capital, Prevention: A New Public Spending Framework for the Future*, we argued that there was a *consequential* benefit to the identification of preventative expenditure. In essence, this was to protect preventative expenditure from being raided to use for day-to-day expenditure which frequently happens and most notably during the 'austerity years' post-2010. However, it can also be argued that there is a *qualitative* benefit from identifying at the outset (or as soon as possible) the purpose of whether an activity is preventative or not. The Civil Service *Policy Profession Standards* put defining "the sought impacts and outcomes of a policy" as part of 'pillar one' of policy development.[21] Yet it is surprisingly common for policies or spending interventions to lack a clear purpose which makes design and evaluation difficult. This is partly because the context

21 HM Government, Policy Profession Standards,12 April 2024

for activities can change over time, but it is also because it can suit policy makers to allow for 'constructive ambiguity' over what the purpose (and intended outcomes) of an activity are, enabling them to adapt to real world results. It is commonly accepted now that the most effective way to achieve impact is to have clear ideas about the 'theory of change' for what a policy, organisation or activity is intended to do. Identifying at the outset whether spending is preventative would likely help to improve the delivery of policies by assisting the policy design and delivery process and lead to better results. It may also assist in the identification of opportunities for collaboration across the public sector if the purpose of spending is better understood enabling different elements of preventative activity to partner more effectively to produce better outcomes.

Identifying whether spending is preventative is also likely to aid Parliamentary accountability, given both the interest in prevention (as noted above) and the fact that it can be difficult for Ministers and Parliamentarians to track developments in public expenditure beyond overall levels. Greater levels of transparency will likely make it easier for the Prime Minister, Chancellor, Cabinet and Parliament to ensure that prevention activity is appropriately protected.

Interestingly, despite health being the most sophisticated area for the development of preventative expenditure, the Department for Health and Social Care's departmental accounts do not reference preventative expenditure.[22] In part, this may be because prevention was not clearly articulated as a departmental objective (something that may be subject to change with the new government) but also may indicate a lack of confidence in the overall classification method. This highlights how even in an area of public service delivery such as health, which has a strong sense of the importance of prevention and frameworks for tracking aspects of preventative expenditure, there is still the need for a 'strategic push', like PDEL.

Given the experience that officials and professionals working in health and care have with the concepts of prevention, any development of PDEL is likely to draw upon their expertise and the Department for Health and Social Care will need to be a 'pathfinder department'. A close collaboration between HM Treasury and DHSC could bring considerable benefits both for the department, in better articulating the purpose of its expenditure, and in helping HM Treasury officials to understand the complexities of preventative expenditure. However, we can have confidence that the classification of preventative expenditure is possible, given UK and international experience in health.

22 Department for Health and Social Care, Department of Health and Social Care Annual Report and Accounts 2022-23, January 2024

PREVENTATIVE EXPENDITURE AND HOMELESSNESS

Homelessness has risen considerably over the past decade. More than 117,000 people are now in temporary accommodation according to the latest statistics, this is more than double the levels in 2010.[23] The number of people also being reviewed for support for homelessness has also increased during this time, with the vast majority being deemed eligible for support.

As Demos noted in our paper with the Centre for Homelessness Impact, *Opportunities to Better Prevent Homelessness in England*, there has been a 'prevention turn' in homelessness policy in England. "[P]olicy makers increasingly embrace the need to prevent homelessness rather than just respond to it".[24] Despite this turn, the preventative categorisation of homelessness spending is still inchoate. This makes it a useful policy area to explore in relation to PDEL and the operational challenges of pathfinding for a department such as the Ministry of Housing, Communities and Local Government (MHCLG) which is primarily responsible for dealing with it.

The move towards prevention within homelessness has been encouraged through a number of policy measures. The 'Housing Options' model of non-statutory homelessness prevention assistance which was first established in the early 2000s. It has been reinforced through the Homelessness Reduction Act 2017 which has created 'prevention duties' for councils in England to help people who are at risk of homelessness to find them accommodation within 56 days, regardless of whether they are considered to be in priority need. A 'Duty to Refer' has also been introduced for public bodies such as prisons and emergency services to highlight those at potential risk of homelessness to local councils so that they can quickly find them support.[25]

MHCLG has also created a 'Homelessness Prevention Grant', worth over £800m, however confusingly this 'prevention grant' does not actually target prevention but instead is designed to meet short term pressures on financially overstretched local councils caused by homelessness.[26] The latter highlights the problem of classifying prevention, particularly when policy makers perceive political benefits from using the term as a way to present policies as being impactful.

23 Ministry of Housing, Communities and Local Government, Statutory Homelessness in England: January to March 2024, 8 August 2024
24 A. Dawson et al, Opportunities to Better Prevent Homelessness in England, Demos, July 2023
25 Department for Levelling Up, Housing and Communities, A Guide to the Duty to Refer, September 2018
26 Department for Levelling Up, Housing and Communities, Homelessness Prevention Grant 2023 to 2025: technical note, 28 February 2024

Table 2 outlines how Demos and the Centre for Homelessness Impact sought to classify various types of homelessness prevention along the levels of prevention identified in a public health setting.

TABLE 2
DEFINING PREVENTION IN HOMELESSNESS

CATEGORY OF PREVENTION	DEFINITION	EXAMPLES
Primary Prevention	Primary Prevention seeks to prevent new people from becoming homeless, incorporating measures which reduce the risk of homelessness at the population level.	• Poverty Reduction Measures • Income support (e.g. Universal Credit) • National Health Service • Existence of Minimum Wages • Tenancy legislation and Regulation • Social/subsidised Housing • Housing Subsidies (e.g. Housing Benefit) • Employment Interventions (e.g. wage subsidies) • Resettlement and Institutional Discharge Programmes • Domestic Abuse Interventions
Secondary Prevention	Secondary Prevention is about quickly identifying people facing imminent homelessness and working to prevent or end it as soon as possible.	• Tenancy Sustainment (e.g. advice, advocacy, subsidy, mediation) • Cash Transfers • Family Mediation and Reconciliation • Legal Advice Debt Advice • Emergency and Temporary Accommodation • Hosting Schemes
Tertiary Prevention	Tertiary Prevention is targeted measures that address the housing and wellbeing needs of people that have already faced homelessness to help them begin or sustain a path to stable housing.	• Housing First • Supported Housing • Tenancy Sustainment

Source: Demos analysis

As Table 2 shows, categorisation of homelessness is challenging, particularly when focused on primary prevention. Moreover, from the practical perspective of developing a measure of preventative expenditure, a whole category of services (such as the National Health Service) cannot be categorised as preventative as that would make the categorisation of expenditure too broad. Furthermore, homelessness also highlights the challenge of classifying prevention *between* different activities. As noted above, the minimum wage may have a preventative benefit when it comes to homelessness through raising wages and helping people to afford accommodation, but it was not designed to prevent homelessness. It also ignores foundational prevention which is particularly important for tackling homelessness where so many of the challenges are closely linked with low levels of social capital.

PDEL & HOUSING FIRST

Housing First is a new approach to homelessness that has been pioneered by Camden, Islington and Redbridge in London. Essentially, Housing First believes that the best way to tackle homelessness is to provide a stable living environment around which other interventions can be based around.

Initial research has found that after two years, 80-90% of people engaged in Housing First are still housed after two years, helping to break the cycle of homelessness.

Housing First is an example of tertiary prevention, seeking to help people who have repeatedly fallen into homelessness and managing the risks that have made them susceptible to homelessness.

Housing First's model is challenging from a PDEL perspective in that all housing provision is to some extent preventative. Housing is a key social determinant of health and wellbeing. The danger in expanding PDEL to cover programmes such as Housing First is that it could stretch the definition to a point where PDEL is no longer useful. However, as we have outlined in this paper, Housing First is targeted at a particular type of the population and the intent of the programme is preventative. It should be possible, therefore, to include programmes like Housing First within PDEL whilst excluding other broad categories of expenditure (e.g. social housing) which are not necessarily targeted at a particular population group and are more considered as public goods.

To combat these challenges, in the short-term, preventative expenditure will need to be considered on a departmental level, where the intentions of the sponsoring department can be clearly identified. In areas such as homelessness, where the impact cuts across multiple departmental boundaries (e.g. health, policing, social security, employment), this is particularly important.

To aid this collaboration,we recommend HM Government should create a 'Preventative Investment Taskforce' to bring together the cross-government Mission Control Boards and the Home Affairs Committee and coordinate government policy towards prevention and feed into the spending review, chaired by the Chief Secretary to the Treasury. This should be chaired by the Chief Secretary to the Treasury to ensure alignment between departmental activities and spending activities. Eventually, priorities for preventative expenditure would be identified at a cross-governmental level through this Taskforce.

TABLE 3
HOMELESSNESS PREVENTION SPENDING INSIDE AND OUT OF SCOPE

IN-SCOPE (PDEL)	OUT-OF-SCOPE (PDEL)
Poverty Reduction Measures (programmatic - e.g. a link worker programme to help poorer families access employment and health support)	Poverty Reduction Measures (non-programmatic - e.g. social security)
Social/subsidised housing (where additional financial support such as a grant or credit is targeted at those high-risk of homelessness)	Income support (e.g. Universal Credit)
Housing Subsidies (where additional financial support such as a grant or credit financial support is targeted at those high-risk of homelessness)	National Health Service
Domestic Abuse Interventions	Minimum Wages
Tenancy Sustainment (e.g. advice, advocacy, subsidy, mediation)	Tenancy legislation and Regulation
Family Mediation and Reconciliation (where targeted to prevent homelessness)	Social/subsidised Housing (non-targeted)
Legal Advice Debt Advice (targeted at providing specific help to prevent homelessness)	Housing Subsidies (e.g. Housing Benefit) (non-targeted)
Emergency and Temporary Accommodation (non-targeted)	Employment Interventions (e.g. wage subsidies)
Housing First (where specifically targeted at preventing future homelessness)	Cash Transfers (non-targeted)
Hosting Schemes	Emergency and Temporary Accommodation (non-targeted)
Tenancy Sustainment	Legal Advice Debt Advice (non-targeted)
Supported Housing (where specifically targeted at preventing future homelessness)	Supported Housing (non-targeted)

Source: Demos analysis

Table 3 above outlines how the taxonomy of prevention for homelessness identified above could be integrated into PDEL. As can be seen, a considerable number of interventions can be included within PDEL, however, they need to be capable of targeting at a clear outcome (to ensure that allocation can be made on purpose, not impact) as well as being programmatic or *supply-led* so that funding can be predicted and delineated. Measures out of scope (such as social security) could in time become part of Preventative Annually Managed Expenditure (PAME) but this is out of scope of the current paper.

Whilst there has been a recognition of the importance of prevention in homelessness in England, international standards on classifying and identifying homelessness are hard to come by. In part, this is because some countries (such as Denmark, Finland and Norway) with extensive welfare and social housing systems have considerably lower levels of homelessness and therefore have systems which can cope with a smaller amount of cases that are primarily driven by other life events.[27] Other countries such as the United States have considerably higher levels of homelessness but with policy devolved to a local and state-level there is not a common approach to tackling the issue. Although the UK is entitled to pioneer new approaches to classifying expenditure, it is important that where possible, the UK is able to work with international partners to develop common standards. This will not only add to the common pool of knowledge on prevention but also help to create confidence in methods of accounting for prevention and provide long term stability. It will also ensure that the UK continues to meet its international obligations to operate through generally accepted accounting practice (GAAP). That being said, accounting practices are constantly evolving and the UK should not be afraid to show international leadership even in areas (such as homelessness) where domestic focus on prevention outpaces international awareness.

Developing PDEL in this context will clearly be more complicated than in the environment of health where there are already (if incomplete) international standards for reporting and classifying preventative expenditure. That being said, PDEL will need to be able to integrate spending areas, such as homelessness, that have a preventative focus if it is to be successful.

27 N. Pleace, Preventing Homelessness: A Review of International Evidence, Centre for Housing Policy - University of York, April 2019

PREVENTATIVE EXPENDITURE AND CHILDREN'S SOCIAL CARE

Children's social care is another challenging area that makes for an interesting test bed for PDEL. On the one hand, there is general agreement that prevention expenditure has been significantly cut in recent years. According to Action for Children, spending on 'early intervention' (what we will call prevention in this paper) has fallen in nine out of ten local authorities between 2015 and 2019.[28] In ten local authorities, preventative expenditure has more than halved.[29] Overall spending on prevention has fallen by 21% in real terms.[30] Analysis by Pro Bono Economics has found that for every £5 spent on children's services, £4 is now spent on 'late intervention'.[31]

Moreover, classification of preventative expenditure in children's social care is very rudimentary compared to health with its internationally recognised system of health accounts. As noted in the The Independent Review of Children's Social Care, also known as the MacAlister review, there is no consistent method of measuring spending on children's social care and other services, which creates further challenges in measuring preventative expenditure.[32]

Children's social care also provides an interesting example because there is a lack of a clear taxonomy of types of preventative activity. Various terms from 'early intervention', 'targeted early help', 'early help' and 'family help' are used to describe activities in this sector.[33] The MacAlister review further noted that there was a considerable variation in delivery methods from universal to targeted, single agency to multiagency methods which underpinned the challenges in coming to common definitions.

At its core, preventative spending in children's social care can cover a range of activities from

28 Action for Children, Too little, too late: early help and early intervention spending in England, 2022
29 Ibid.
30 Ibid.
31 J. Franklin et al, The well-worn path Children's services spending 2010-11 to 2021-22, accessed August 2024
32 J. MacAlister, The independent review of children's social care: Final Report, May 2022 p.8
33 Ibid. p.30

parenting support, play and activity groups, counselling services or help with managing complex disabilities. Unlike in homelessness, as referenced above, there is no statutory duty for local authorities to consider preventative measures but government guidance does encourage councils to put procedures in place for identifying support that could be given to children that are below the threshold for statutory services.[34] An additional challenge inherent in this policy area is that spending is related to people at the very beginning of their lives, the idea being that these formative years are some of the most important in shaping outcomes. As a consequence, any spending that can have a positive effect at this stage of their lives could be seen to be preventative. The purpose of nearly all children's social care expenditure could theoretically be argued to be preventative. However, any definition of preventative expenditure which includes an entire class of expenditure is without utility. It must be possible, therefore, to develop a tighter workable definition.

PDEL & HEALTHY CHILD PROGRAMME

The Healthy Child Programme offers every family a programme of interventions, including screening tests, immunisations, developmental reviews, and information and guidance to support parenting and healthy choices. It also outlines all services that children and families need to receive if they are to achieve their optimum health and wellbeing.

Although the programme is universal, the Healthy Child Programme firmly fits within a category of primary prevention. From a PDEL perspective, therefore, the Healthy Child Programme provides a relatively straightforward example of how preventative expenditure within a children's care setting could be identified.

The challenge for multi-disciplinary programmes like this, however, is ensuring that there are not incidents of 'double counting' preventative expenditure as other agencies (e.g. primary care networks) involved in delivering that are providing services for the Healthy Child Programme may already be counting the infrastructure for tests, immunisations and health visits as part of their overall preventative spend. A fair contribution of capital expenditure to delivering preventative activities under this programme, and others, will also need to be agreed in advance.

This is where effectively tracking by commissioners is essential and guidance will need to be provided. Ideally, preventative expenditure should be categorised as far 'upstream' as possible. In this case, it would be captured in the funding given to primary care networks or local authorities that are providing the core infrastructure to those programmes, with any additional expenditure above and beyond this infrastructure then related to the programme itself. Government departments will also need to share information openly between themselves about how they have categorised their spend so that other departments funding shared infrastructure can consistently apply their approach. HM Treasury will need to maintain a key role in enabling this system to be effective.

Central government, local authorities, primary care networks, integrated care boards and other agencies will need to work together collaboratively to achieve a consistent and fair allocation of expenditure under PDEL.

34 Action for Children, Too little, too late: early help and early intervention spending in England, 2022

Alongside charities such as Action for Children, the think tank The Institute for Government has also sought to monitor developments in spending on children's social care. Its performance tracker on children's social care breaks down spending between:

- Children in care;
- Safeguarding children and young people;
- Family support services;
- Services for young people;
- Sure Start and spend on children under 5;
- Youth Justice and children's services.[35]

Whilst some activities, like Sure Start, can be clearly identified as preventative, other activities such as spending for children under 5 may include not preventative emergency activity. Youth justice is also a complex category of expenditure which can include preventative and non-preventative elements.

TABLE 4
EXAMPLES OF CHILDREN'S SOCIAL CARE ACTIVITIES IN AND OUTSIDE OF THE SCOPE OF PDEL

IN-SCOPE (PDEL)	OUT-OF-SCOPE (PDEL)
Sure Start and parenting support groups	Activities related to the transferring of children into care
Play and activity groups	Children in care
Family support services	Safeguarding children and young people expenditure
Targeted intervention programmes for children, families and young people at risk	Crisis support and other emergency services for children, families and young people
Educational or outreach programmes for children, families and young people	Youth Justice services focused on public protection
Youth Justice services focused on tackling recidivism	

Source: Demos analysis

For the purpose of preventative expenditure, the way that a service is delivered is not particularly important, only to the extent that it affects the purpose of the proposed spending, if at all. In most cases, the purpose will be defined by the commissioners, which are likely to be public bodies (either local councils or government departments) who can provide direction as to the intent of the expenditure.

In this sense, although there may be sectoral differences around the definitions of various services, the lack of a centrally agreed definition of preventative services does not mean that it is impossible to classify preventative expenditure. However, in this scenario, where there is a lack

35 M. Fright & N. Davies, Performance Tracker 2023: Children's social care, Institute for Government, October 2023

of an agreed definition of prevention, it is important that the government works in collaboration with sector specialists, academics and other stakeholders so that any classification method is able to command wide ranging support. This is because preventative expenditure is, ideally, long-term in nature and requires a level of consistency in measurement and tracking. If there is a lack of buy-in from the experts and providers of preventative services this may lead to repeated calls for classification revision which in turns undermines one of the central benefits of a measure such as PDEL, which is to provide a long-term overview of levels of preventative expenditure and protect spending levels.

That being said, for PDEL to be functional in children's social care, there must be a consistency of measurement at the level of the *commissioner* of services so that classification can be applied over a long period of time. If HM Treasury and the Ministry of Housing, Communities and Local Government are able to provide adequate guidance, it should be possible for local authorities to classify preventative expenditure and report this information via OSCAR.

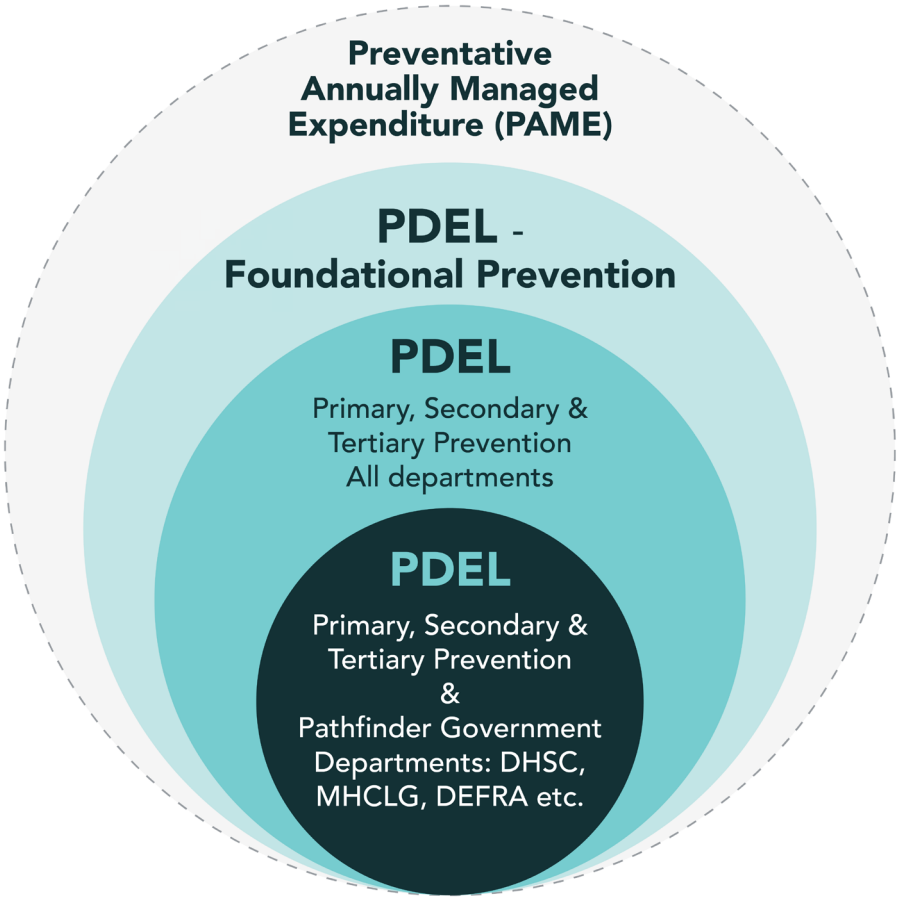
Children's social care is an example of an area where there are significant barriers to development of PDEL and where a different approach will need to be taken. Unlike health or homelessness where structures are already in place but require adaptation (or consistent implementation), some of the basics (like an overall understanding of expenditure on children's social care and consistent taxonomy of services) still need to be constructed. A 'challenger' issue, such as children's social care, could be useful in helping to develop a robust and universal approach to PDEL.

BUILDING A SYSTEM TO IMPLEMENT PDEL

We recommend that the development of PDEL follows a path of ever expanding concentric circles, as outlined in Figure 2 below. At first, this would focus on policy areas and 'pathfinder departments' (such as health and communities) where there is some common language and focus on prevention. Over time, PDEL would include all government departments, still focused on primary, secondary and tertiary prevention. This would be followed by another expansion, to cover foundational (or primordial) prevention which addresses community-wide and societal-wide preventative expenditures (particularly social infrastructure) as outlined in Demos' essay *The Preventative State*.[36] Finally, and should PDEL be successful, it may be possible to develop a preventative definition for Preventative Annually Managed Expenditure, looking at aspects of the social security system which are particularly valuable for prevention.

36 A O'Brien et al, The Preventative State: Rebuilding our Local, Social and Civic Foundations, April 2023

FIGURE 2
DEVELOPMENT OF CLASSIFICATION OF PREVENTATIVE EXPENDITURES



Source: Demos analysis

At the same time, a clear institutional framework for PDEL will need to be constructed. Figure 3 below outlines a basic schema for how this could be done, building on the model outlined in our original paper. In this model, 'strategic' oversight of PDEL would be provided by Parliament and Cabinet in collaboration with HM Treasury, for constitutional and operational reasons. Parliament and Cabinet would oversee the broad definition of prevention as well as prioritisation of key aspects of preventative expenditure. In particular, Cabinet would play a critical role in the Spending Review process alongside HM Treasury, in ensuring that levels of preventative expenditure were integrated into resource allocations across departments.

HM Treasury would then turn this into operational guidance, as well as ensuring informing strategic bodies about the feasibility of plans. This would be undertaken by a Preventative Expenditure Working Group initially, but would later be formalised into a Preventative Investment Unit (PIU). Although HM Treasury must lead this process (for practical and constitutional reasons), it will need to work in close collaboration with 'pathfinding' bodies and departments such as the ONS and Department for Health and Social Care, where preventative taxonomies have been successfully developed and integrated into financial reporting.

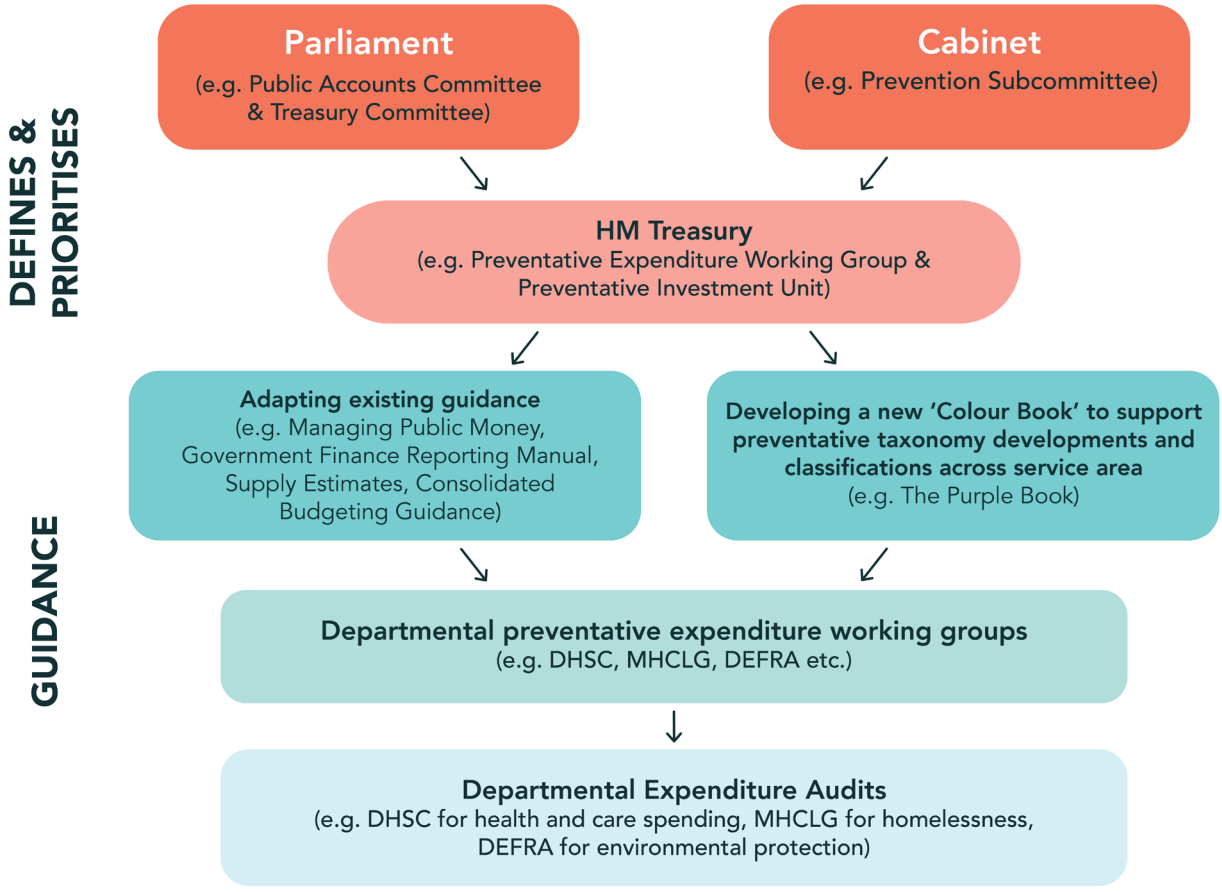
The PEWG would initially be responsible for adapting existing accounting guidance to ensure that they include reference to preventative expenditure.

We recommend that this should be consolidated into a new 'Colour Book' for preventative expenditure - a Purple Book.[37] This would provide guidance for departments to begin the classification and accounting for preventative expenditure within their respective purviews. This would need to be developed in collaboration with pathfinding departments as well as accountability bodies and experts such as ONS, NAO and CIPFA. This would entail the development of departmental preventative expenditure working groups to oversee the development of relevant taxonomies. These in turn would be implemented through Preventative Expenditure Audits that would establish a baseline of preventative expenditure for future tracking and monitoring of expenditure.

Over time, as new services or programmes were introduced, these could be integrated through Impact Assessments identifying whether the purpose is preventative or not, as per colour book guidelines. It would then become the role of the PIU (and departmental PIUs as recommended in our previous paper) to maintain this system. Sizeable public bodies with multiple service responsibilities (such as combined and local authorities) may also need to develop their own guidance and units. However, given the ultimate responsibility of HM Treasury to account for all public expenditure to Parliament, it makes sense to start from the centre and ripple out throughout the rest of the public sector so that there is consistency of implementation.

The PIU should then ensure that the lessons learnt are spread internationally through relevant forums (e.g. OECD, WHO, IASB). This will ensure that the UK develops methodologies which can meet international standards and meet our legal and constitutional obligations

FIGURE 3
INSTITUTIONAL FRAMEWORK FOR DEVELOPING PDEL



Source: Demos analysis

37 Our suggestion of purple is purely for alliterative reasons

As noted above, HM Treasury should begin through a series of stages, beginning with a small number of departments and focused on clearly defined primary, secondary and tertiary prevention levels before expanding to cover all departments and eventually wider concepts (but nevertheless important) levels of prevention such as foundational policies.

Implementing PDEL will be more time consuming and challenging than the RDEL and CDEL split as we noted in our first paper. However, the prize for achieving this shift could be significant.

As the new government has noted, many of our critical public services such as the NHS are broken.[38] We cannot simply go on as we are. We need, as the Secretary of State for Health and Social Care has called for, a strategic shift towards prevention[39] - not just in health and care but in every part of our public services. This cannot be done without effective resourcing, and as has been noted by various policy makers, the state has struggled to shift resources towards preventative activity.

PDEL is a tangible, practical attempt to turn rhetoric into reality.

The challenge of implementing PDEL may be significant, but the benefits from its adoption could be truly transformational.

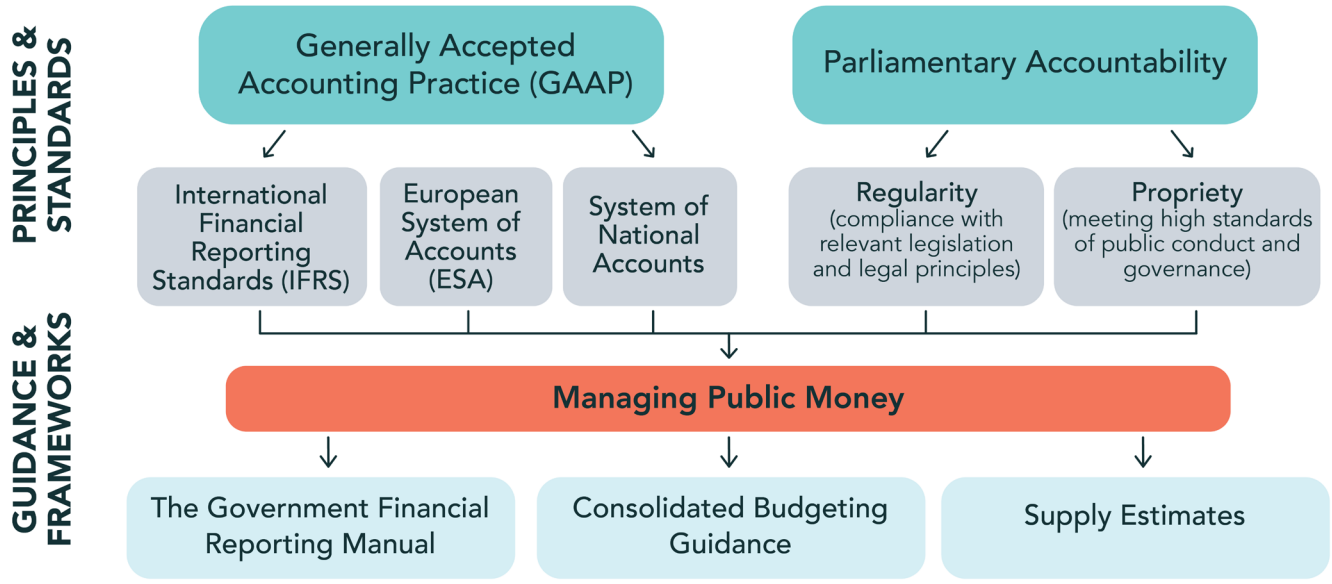
Finally, we conclude with some recommendations for how PDEL can be implemented based on this analysis.

38 Sir Keir Starmer, PM speech on the NHS: 12 September 2024, HM Government, 12 September 2024
39 The Guardian, Wes Streeting pledges billion to GDs in order to 'fix front door' of NHS, 8 July 2024

PDEL AND PARLIAMENTARY ACCOUNTABILITY

Operationally, any changes to accounting to delineate preventative expenditure will need to work within the current public sector financial reporting framework. There is already a complex and interconnected series of international and national frameworks related to accounting and reporting on public expenditure. Figure 4 lays out at a high conceptual level the environment in which public expenditure is reported and accounted for taking into account the main international frameworks and national frameworks.

FIGURE 4
ACCOUNTABILITY FRAMEWORK FOR PUBLIC EXPENDITURE REPORTING



Source: Demos analysis

In the UK, HM Treasury interprets the international frameworks (International Financial Reporting Standards, OECD guidance etc.) for domestic purposes. However, there is an additional challenge because HM Treasury also has to ensure that financial reporting meets the constitutional principles that have underpinned the governance of expenditure since the late 17th century and far pre-date any international regulatory framework. At the core is that accounting rules *aid the ability of Parliament to hold officials to account*. The current controversy over the financial Estimates developed by the previous government and inherited by the current government and whether they were 'accurate', is an example of this constitutional principle in action. It also highlights the challenge of balancing Parliamentary accountability with the complexity of the 21st century state which has enormous financial commitments that are subject to significant volatility.

Integrating internationally accepted accounting principles alongside Parliamentary scrutiny is distilled in *Managing Public Money*, which outlines how resources in the public sector should be governed. In turn this informs the detailed implementational frameworks such as *The Government Financial Reporting Manual*, which outlines how public sector agencies (e.g. departments, arms lengths bodies etc.), *Consolidated Budgeting Guidance*, which outlines how central government budgets for its work and the *Supply Estimates* guidance manual, which provides the framework for developing the 'Estimates' which are the resource limits voted on by Parliament and ensure Parliamentary accountability for state spending.

At the centre of global financial reporting principles is considering the need of the users of any financial reports.[40] For businesses, the primary users are "investors, lenders and other creditors that cannot require reporting entities to provide information directly to them and must rely on general purpose financial reports for much of the financial information they need."[41] Although HM Treasury itself, the general public and researchers are considered important users of government accounting, according to HM Treasury's guidance "[e]nabling Parliament to hold the government to account (parliamentary accountability) is…the key purpose of government annual reports and accounts."[42]

In our previous paper, we outlined how PDEL would enable greater accountability for HM Treasury, Parliament and the public to hold departments to account for spending on prevention.[43] However, it is clear that in developing rules for reporting on preventative expenditure Parliament would need to be given a role in defining what this is, both to fulfil the constitutional need for Parliamentary accountability but also to meet internationally accepted principles that reporting should meet the needs of primary users. This is in turn a principle which is itself embedded in legislation (such as the Government Resources and Accounts Act 2000) which require HM Treasury to follow generally accepted accounting practices in developing its reporting frameworking. PDEL, therefore, needs to be defined in a way that can be clearly understood by Parliamentarians who ultimately need to use the information to hold the government to account.

Although the RDEL/CDEL split now seems natural and solid, when the change was proposed in 1998 there was concern about the difficulties in effectively defining 'capital expenditure' from a public sector perspective.[44] Capital spending was spending that aimed to "create assets which support services and taxpayers in future years as well as now", but as was noted at the time, this definition could cover wide ranges of public spending such as health and education as capital expenditure which would significantly reduce the utility of the split.[45] At the beginning of any

40 International Accounting Standards Board, Conceptual Framework for Financial Reporting, March 2018 p.A20
41 Ibid.
42 HM Treasury, The Government Financial Reporting Manual, December 2022 p.7
43 A O'Brien et al, Revenue, Capital, Prevention: A New Public Spending Framework for the Future, Demos, October 2023 p. 8
44 A number of witnesses to the House of Commons Treasury Committee, including the Institute for Fiscal Studies raised concerns along these lines
45 House of Commons Treasury Committee, Eighth Report - The New Fiscal Framework and Comprehensive Spending Review - Volume I, 29 July 1998

process to define preventative expenditure, a role should be given to the House of Commons Treasury Committee to call witnesses and help shape the definition of prevention that is useful for Parliament to utilise in scrutinising the financial reports of government departments. This would be similar to the role of the Treasury Committee in providing oversight to the RDEL/CDEL split in 1998.

At a strategic level, parliamentary interest in preventative expenditure is likely to be high. The word "prevention" has been referenced nine hundred times in the House of Commons since 2020.[46] It also featured prominently in a recent debate on public spending, including reference from the current Chancellor of the Exchequer, Rachel Reeves.[47] In most cases, prevention is referenced as a goal that government expenditure should aim to achieve. This indicates that Parliament would find the addition of PDEL to CDEL and RDEL useful as a way of ensuring that resources are utilised in a way that Parliament has intended.

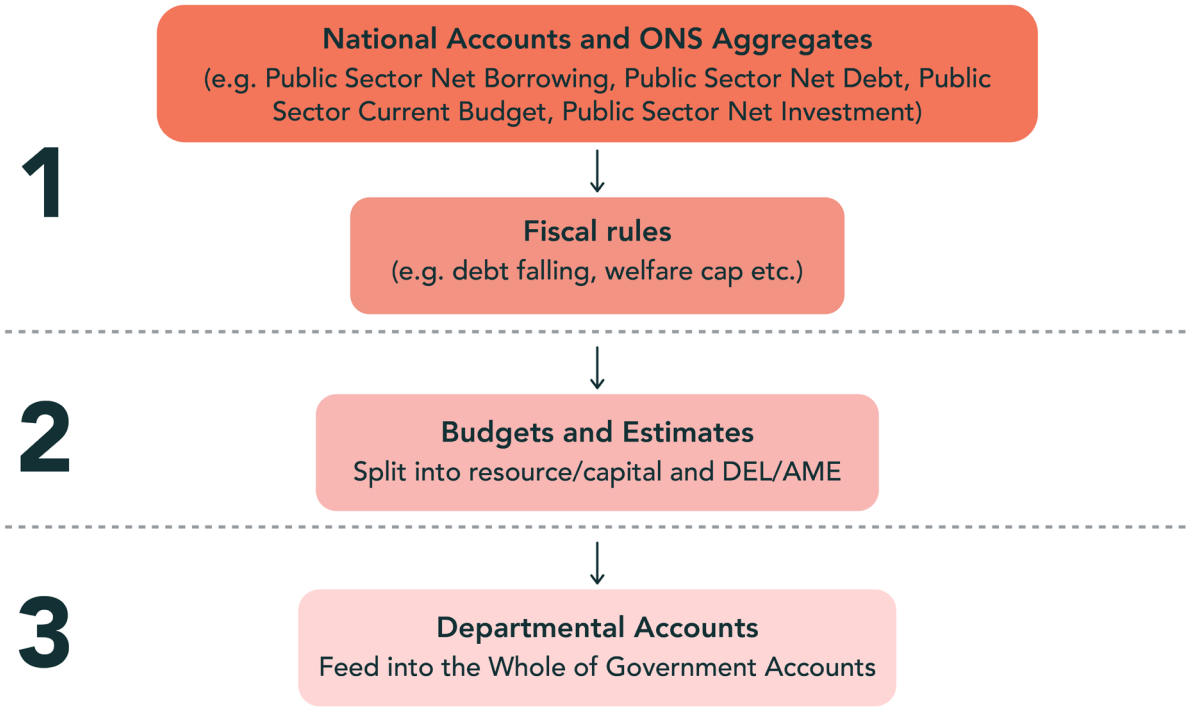
PDEL would also need to be included in the way that the annual 'supply estimates' for government expenditure are voted on by Parliament. Currently, through Supply and Appropriation Acts, Parliament votes on limits for departments including RDEL, CDEL, resource Annually Managed Expenditure (AME) and capital AME. These are *limits*, however, rather than the actual budget for each department. Generally speaking, departments spend less than the total amount that they have been allocated through these estimates.[48] As part of getting Parliamentary approval for these estimates, it would need to be possible for Treasury officials to provide confidence to Members of Parliament of the limits of financial exposure. It would also be necessary for departments, and HM Treasury, to put in financial control mechanisms to ensure that spending on preventative activities does not go beyond the limits approved by Parliament. It is critical that PDEL is designed in such a way as to prevent exposure to the Exchequer that could lead these limits to be breached. This is why we have recommended the initial development of a *PDEL* rather than *PAME* or some other overriding categorisation. In time, it may be possible to develop a 'preventative mirror' to AME which covers demand-led expenditure (such as social security spending). However, in the short term, preventative expenditure will need to be focused on clearly identifying programmes and activities which can be effectively monitored and controlled.

46 https://www.theyworkforyou.com/search/?q=%22prevention%22&phrase=&exclude=&from=2020-01-01&to=&person=&section=debates&column=

47 R. Reeves, House of Commons Debate, 29 July 2024, c1067

48 Office for Budget Responsibility, Departmental expenditure limits (DELs), accessed July 2024

FIGURE 5
PUBLIC SPENDING FRAMEWORK



Source: HM Treasury

Assuming that estimates have been approved, government departments are then obliged to develop annual reports summarising their use of the resources voted to them. The Government Resources and Accounts Act 2000 governs the development of these annual reports. The Act empowers HM Treasury to set guidance for the development of departmental accounts, it also specifies that departmental accounts must "conform to generally accepted accounting practice subject to such adaptations as necessary in the context of departmental accounts".[49] The Act also requires the appointment of an accounting officer to prepare these accounts by HM Treasury.

Although in some areas (such as health) there are some international standards and norms that can be used, in many other areas of expenditure, this is not the case. Given the legislative requirements for guidance and need for conformity with generally agreed accounting practices, HM Treasury will need to take the lead in developing this guidance alongside recognised bodies such as the Chartered Institute for Public Finance and Accountancy (CIPFA). Training will also need to be developed for accounting officers so that they can discharge their responsibilities to HM Treasury and Parliament. Preventative expenditure will also need to be coded into The Online System for Central Accounting and Reporting (OSCAR) which provides the basis for monitoring of expenditure across the public sector. This is a process that will likely take several years. In our previous paper, we said that HM Treasury should develop a 'Preventative Expenditure Working Group' (PWEG) to develop a working definition of preventative expenditure. This would bring together experts from HM Treasury, Government Departments, ONS, CIPFA, NAO, What Works Centres, Royal Colleges, Academia and Civil Society to develop a shared understanding of how to account for prevention activity. It may also be useful to engage with the Public Accounts Committee as part of this process to ensure that any definition developed is acceptable to Parliament and appropriate for its scrutiny function.

49 HM Government, Government Resources and Accounts Act 2000, Section 5 - accessed August 2024

CONCLUSION

This paper builds on the ongoing conversation around how we effectively embed prevention within government decision making and shift spending towards long term impact.

There will be significant operational challenges in delivering PDEL, however, this paper has indicated that there is a framework already in areas such as health and homelessness that could be built upon by pathfinding departments and agencies. Moreover, we have in the past, through the CDEL/RDEL split, made changes to the accounting of government spending which have had positive, far reaching, impact. The operational challenges are, therefore, worth overcoming because of the benefits of a clear process for tracking preventative expenditure in transforming the allocation of spend and the delivery of public services.

Central to all this work is a spirit of collaboration and openness within government, something that has been called for through the concept of 'mission-driven government'. For PDEL to be implemented effectively, HM Treasury, Government Departments, Parliament, Local Authorities, NHS England, Integrated Care Boards and a range of other agencies will need to work together to share information and maintain consistent tracking of expenditure in a way that has never been achieved before.

However, given the importance of prevention and the consensus amongst policy makers that we need to find better ways of funding and delivering public services, PDEL is well placed to provide an effective tool to encourage collaboration. We believe that there is enough evidence to justify further exploration of PDEL as a tool for change.

Building on our work here, our next Demos and Health Foundation paper will outline how PDEL could be a tool for shifting the culture of decision making and make a mission-driven approach to prevention a reality.

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