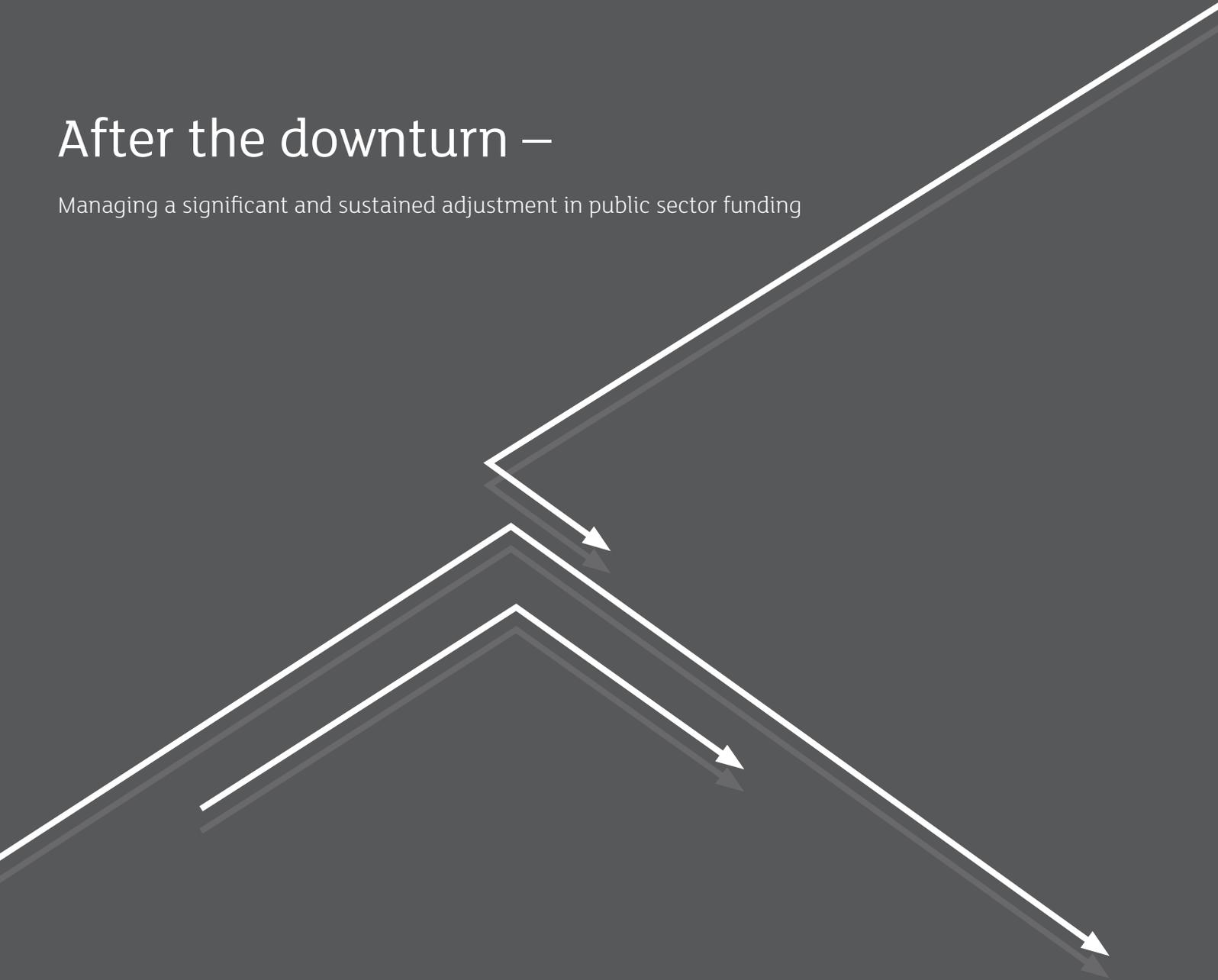


After the downturn –

Managing a significant and sustained adjustment in public sector funding



After the downturn – managing a significant and sustained adjustment in public sector funding

Contents

Executive summary	3
1. Introduction	4
2. Fiscal analysis	4
3. The scenarios	5
4. Examining the scenarios	6
5. Strategic options	9
6. Option 1 - Redefining the relationship between the state and the individual	9
7. Option 2 - A significant delayering of the public sector with many more decisions taken locally with minimal oversight	11
8. Option 3 - A major initiative to maximise economies by much more effective collaboration between public bodies	12
9. Combination options	13
10. Getting ahead of the game	14

Executive summary

The major political parties have acknowledged that public spending cuts are unavoidable. It is clear that the forthcoming General Election will be fought in large part on how spending reductions should be achieved and where they should fall. This paper, prepared by CIPFA and SOLACE, and informed by a much wider cross-section of public sector professionals, explores these crucial questions and calls on the political party manifestos to address these questions clearly.

This paper considers two levels of headline cuts in current public spending in the three year spending round following the 2010 election. Scenario A envisages a 7.5% (real terms) cut in current public spending over the next three year spending round 2011-14 (with the likelihood of cuts of a similar scale in the following spending round, 2014-17, as well). Scenario B envisages a 15% (real terms) cut in current public spending over the next three year spending round, 2011-14 (with the possibility of further, probably less severe, cuts in the following spending round, 2014-17).

The two scenarios reflect a range of uncertainties about the length and depth of the economic downturn, the speed of recovery and the fact that different political parties will take different views about the amount of fiscal rebalancing required in the short as opposed to the medium and long-term. The scenarios are described as headline cuts as they illustrate the position before politicians, nationally and locally, make pronouncements to protect specific services. The price of protecting major budgets such as the NHS or schools will be a need to deliver deeper cuts in 'unprotected services'. For some services, this may mean cuts of 20% or more in the period 2011-14.

What are the positive steps that can be taken to manage these spending cuts well and mitigate the damage it may herald for individuals, families and communities? Most commentators argue that a radical response of some sort is required. This paper advocates three key strategic options.

The first strategic option is to review and redefine the relationship between the individual and the State. This means moving to a world in which people do more for themselves and each other, and look less frequently to the State as the provider of first resort.

The second strategic option is devolving more decisions to be taken by local bodies with minimal oversight. By reducing the scale of national oversight, inspection and target setting activities, costs can be reduced. Moreover, trusting councils and other local bodies to make the right judgements for their local communities will help in turn to rebuild local public accountability.

Finally, the third strategic option is to facilitate better horizontal collaboration across government and the public services. There has been emphasis in recent years on the efficiency of individual organisations and rightly so. Whole system efficiency is now essential, however, as it will mitigate duplication and blockages within the system which are so costly and frustrating to citizens.

The three strategic options outlined are not mutually exclusive. On the contrary, CIPFA and SOLACE conclude that the best strategies will need to draw on all three approaches. For this to work effectively, however, Government and public sector leaders must take a number of explicit actions to create the conditions for success. These are set out in the final section of the paper.

Undoubtedly, people may have to get used to receiving less from their local public services. By considering the issues addressed in this paper, however, Government and public services can show leadership and awareness by addressing the challenges openly and honestly and engaging citizens, staff and stakeholders in candid exchanges about priorities.

1 Introduction

1.1 The global financial crisis and resulting economic downturn have made reductions in UK public spending inevitable. Leaders of all of the major political parties have acknowledged that cuts are unavoidable and as a consequence it is clear that the forthcoming General Election will be fought in large part on the question of how reductions should be achieved and where they should fall.

1.2 This paper, prepared by CIPFA and SOLACE, and informed by a much wider cross-section of public sector professionals, explores some of the key questions which we hope that the political party manifestos will answer clearly:

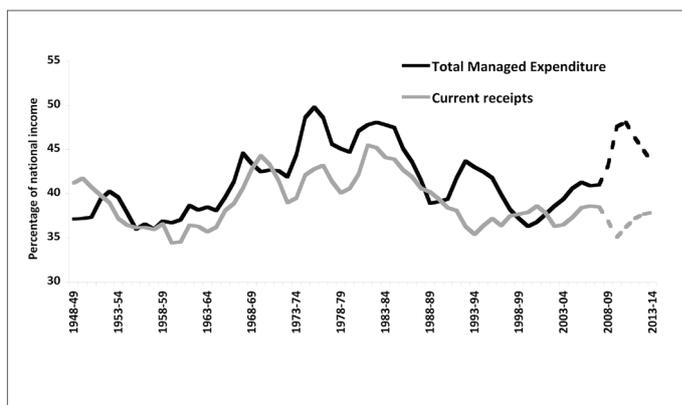
- What scale of funding gap needs to be addressed and over what period?
- To what extent is the gap likely to be closed by increasing taxes and/or reducing spending?
- To what extent can spending reductions be eased by measures to improve efficiency and increase productivity or by raising increased revenues?
- What scale of cuts in services will be required and where will they fall?
- How can spending reductions which involve cuts in services be managed most effectively?

1.3 The paper is intended to be helpful to Government, Parliamentarians, the political parties, and public sector leaders, national and local, all of whom have critical roles to play in helping to make and implement the right decisions in response to the daunting challenges in prospect. It is based on the premise that Government must tackle these issues with real urgency immediately following the General Election irrespective of its result.

2 Fiscal Analysis

2.1 According to the latest Government figures, Total Managed Expenditure (TME) is likely to rise to 48% of GDP in the current year, 2009/10, a level last seen in the 1970s (Fig 1). At the same time receipts from tax proceeds are expected to fall to levels last seen in the recession of the early 1990s.

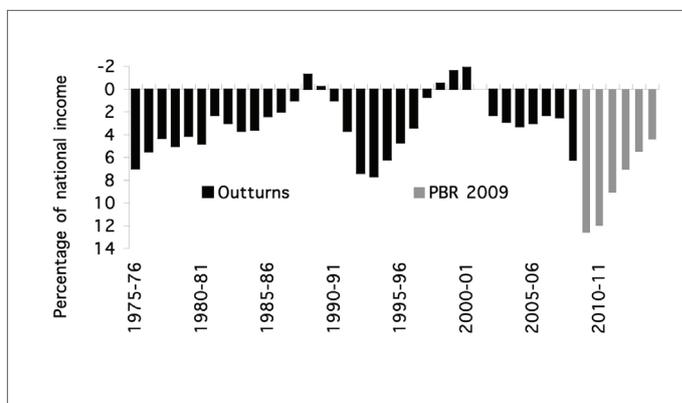
Figure 1 TME vs current receipts



Note: Excludes unrealised losses on financial interventions.
Source: HM Treasury.

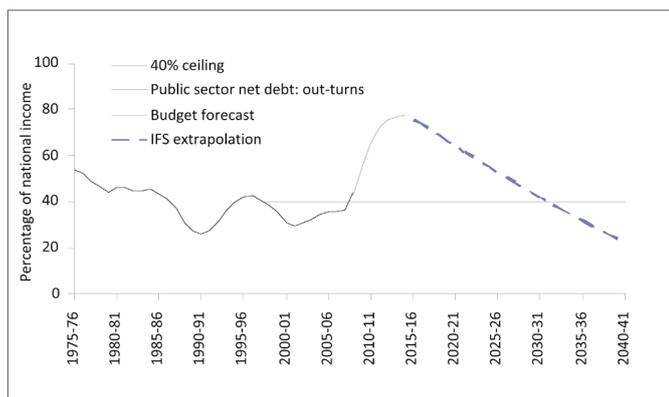
2.2 The impact on public borrowing is forecast to be very significant (Fig 2). Annual borrowing which in previous recessions has tended to peak at 7 or 8% of GDP is expected to grow to 12.6% (£178bn) in 2009. As a consequence public sector net debt is predicted by the Treasury to rise to 77.7% (£1379bn) of national income in 2013-14 (Fig 3).

Figure 2 Annual borrowing as % of GDP



Note: Excludes unrealised losses on financial interventions.
Source: HM Treasury.

Figure 3 Aggregate net debt



Note: Excludes unrealised losses on financial interventions.
Sources: HM Treasury; IFS calculations.

2.3 The Government’s current forecasts infer a strategy to return annual borrowing to more conventional levels by 2017-18. On the extrapolation produced by the IFS (see Fig 3) this would in turn bring aggregate net debt back down to pre-crisis levels by the early 2030s.

2.4 To achieve this rebalancing of the public finances a judicious mixture of tax increases and spending reductions will be required. CIPFA and SOLACE have rehearsed two possible scenarios in relation to reductions in current public spending.

3 The scenarios

3.1 Scenario A is a plausible scenario based largely on the position presented by the Chancellor in the 2009 pre-budget report. But clearly it is not the only possibility. On one hand the economy may recover more strongly than Government is currently forecasting, or, on the other, one or more of a number of downside risks may materialise creating even more difficult challenges.

3.2 For the purposes of this paper we have decided to focus our second scenario (Scenario B) on more pessimistic assumptions than those currently made by Government. In doing so we are mindful of a number of risks which may arise:

- The recession may be longer and deeper than currently predicted.
- Recovery may be slower than currently predicted.
- Benefits expenditure may be higher and remain so for longer than predicted.
- Cuts in public spending may themselves have a damaging impact on recovery especially in areas where public expenditure represents a relatively higher proportion of local economic activity.
- Interest rates may rise adding significantly to the cost of funding Government debt.
- Different politicians will take different views about the timing and intensity of cuts. Post the General Election, Government may take the view that the greater part of the pain of rebalancing the public finances should be taken sooner rather than later. Instead of planning a relatively constant level of cuts over seven or eight years – the so-called ‘two Parliaments of Pain’ – Government may consciously plan for deeper cuts within the lifespan of a single Parliament.

3.3 For simplicity the two scenarios are summarised as follows:

Scenario A
a 7.5% (real terms) cut in current public spending over the next three year spending round, 2011-14 (with the likelihood of cuts of a similar scale in the following spending round, 2014-17, as well).¹

Scenario B
a 15% (real terms) cut in current public spending over the next three year spending round, 2011-14 (with the possibility of further, probably less severe, cuts in the following spending round, 2014-17).²

¹ In terms of total public expenditure, after inclusion of debt interest payments, social security spending, etc this is expected to equate to a real terms freeze in spending.

² In terms of total public expenditure, after inclusion of debt interest payments, social security spending etc this is expected to equate to a real terms reduction in spending of 4%.

4 Examining the scenarios

4.1 The headline figures of the two scenarios 7.5% and 15% cuts over three years are potentially deceptive. In both cases Government are likely to try to protect or even grow some priority services. Proposals are likely to vary from manifesto to manifesto. Recent press reports suggest that some of the most likely candidates for protection include the NHS, schools, international development and ‘front-line services’. Small activities with modest budgets may be protected with relatively little impact upon the bigger financial equation. In contrast, the price of protecting major budgets such as the NHS or schools will be a need to deliver deeper cuts in ‘unprotected services’. It is difficult to envisage any scenario in which all ‘front-line services’ can be protected from spending cuts.

4.2 Trade-offs between protected and unprotected services will play out at the local as well as the national level. In effect this creates two levels of prioritisation and two levels of uncertainty. For example, funding which local authorities receive from Government may reduce by more or less than the 7.5%/15% norm depending upon whether or not local government services are prioritised by the Government of the day. Local councils will then allocate those resources to individual service areas reflecting their own local view of priorities. They may, for example, wish to protect children’s services or economic development activities. At each of the two decision points the range of possible outcomes for individual services will be expanded and the challenges facing unprotected services will become more daunting.

4.3 The effect of these two levels of prioritisation is illustrated in Table 1 below:

Table 1		
	Scenario A	Scenario B
Aggregate level of cuts over 3 years.	-7.5%	-15%
Annualised aggregate level of cuts.	-2.5%	-5%
Likely range of growth/cuts for individual services/ sub sectors following national decisions about priorities (annualised).	0 to -5%	0 to -7.5%
Likely range of growth/cuts for individual services following local decisions about priorities (annualised).	0 to -7.5%	0 to -10%

4.4 Service priorities will need to be reconsidered at regular intervals. In Scenario A, for example, a local service which is unprotected at both the national and local levels may face a 7.5% cut in year 1. Whilst that might be feasible, it does not follow that similar levels of cuts can be approved in years 2 and 3. Services which suffer deeper cuts in year 1 are likely to become more sensitive and may need to receive a degree of protection, either nationally or locally (or both), in subsequent years.

4.5 This is not to suggest that all of the attention should be focused on unprotected budgets. Services like the NHS or schools which appear to be strong candidates for protection will have to make significant adjustments to manage within budgets which merely maintain current spending levels in real terms. This will contrast sharply and painfully with the generous growth budgets which have been the norm over the past decade. Political parties therefore need to take care to avoid giving the impression that a degree of budgetary protection can exempt any service from the need to make urgent and sustained improvements in efficiency and to prepare for real service cuts.

4.6 Whilst recognising the importance of annual milestones, most public bodies will recognise the practical imperative to plan to deliver cuts over the longer spending round period and beyond. The challenge facing public bodies is a marathon rather than a sprint. Some of the most significant adjustments will, in terms of planning and implementation, take place over a period of significantly longer than one year.

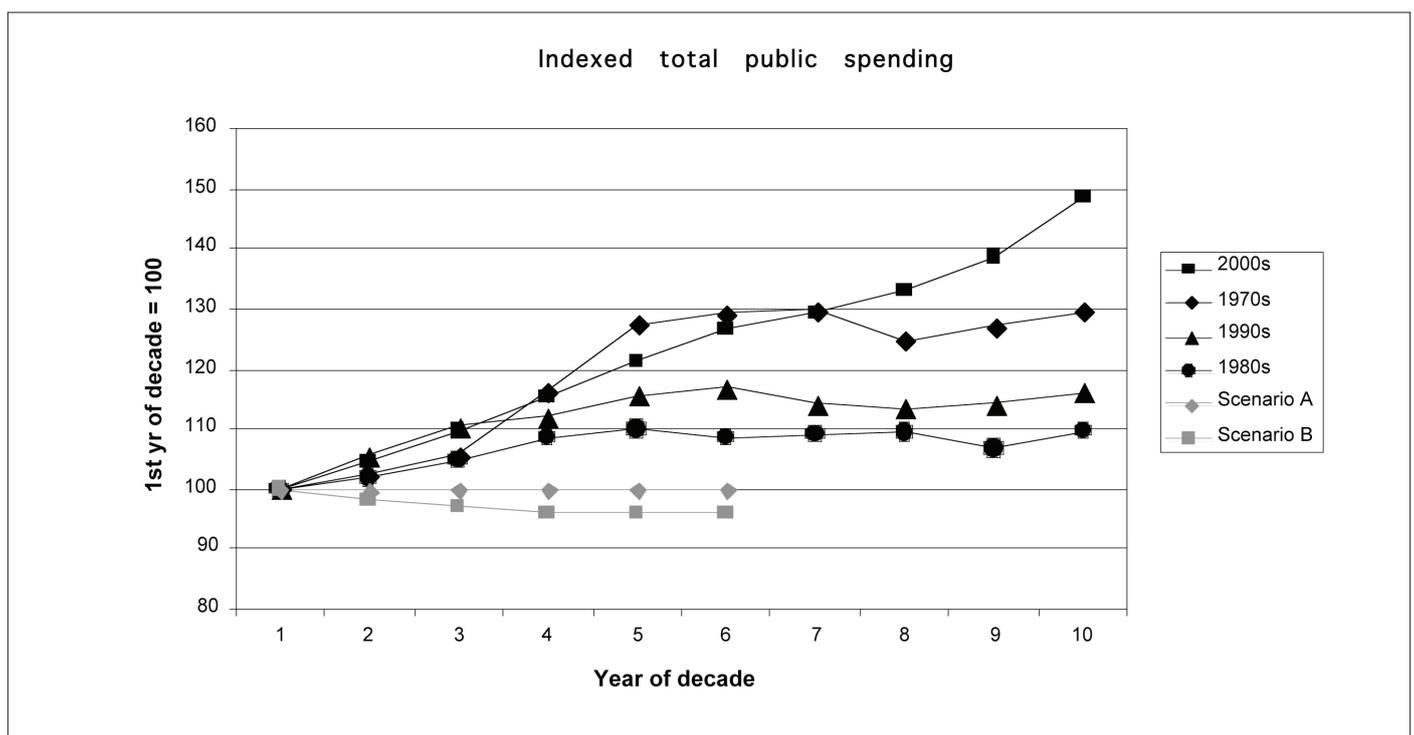
4.7 The scope for the spending reductions illustrated in Table 1 (opposite) to be managed without real cuts in services is limited, not least because in most, if not all, services there will be unavoidable spending pressures which need to be acknowledged and reflected in budgets including those which arise from a growing population – more children on school rolls and more frail elderly people requiring a range of health and care services. For the purpose of this paper the assumption is made that, across the public services, these pressures will be similar in scale to the level of new efficiency savings generated by organisations ie that one will offset the other. This may not be true for each individual organisation. Some will face greater spending pressures which ultimately add to the scale of spending cuts illustrated in Table 1. Others will be able to generate new efficiency savings which not only offset spending pressures but also, at the margin, reduce the scale of spending cuts outlined in Table 1.

Smaller public bodies are likely to face particular difficulties because in some areas their cost structures may be close to the irreducible minimum cost of being in business.

4.8 There is also likely to be some, but relatively limited, scope for increasing income (from fees and charges) from services within current policy frameworks (N.B. some of the options discussed later in this paper involves a significant expansion of charging for use of services). Many of the local services concerned such as planning and building regulation, car parking and leisure services are already experiencing lower levels of usage in some areas consistent with the recession. In some cases increases in charges will therefore not necessarily generate increased revenues.

4.9 In theory the tax raising powers of local authorities might also be deployed to increase the funding available for local services. In practice, however, increased council tax revenues are unlikely to increase sufficiently to impact materially on the level of spending cuts required. Government may decide to continue to use its powers to limit local tax increases. Alternatively it may suspend the use of or repeal these powers in order to give authorities greater flexibility and capacity to sustain valued services. Even in these circumstances, however, most councils are likely to pursue policies of minimising council tax increases during a difficult period for both local economies and household budgets.

Figure 4 – Total public spending in real terms



- 4.10** It is important to underline the fact that both Scenarios A and B involve sustained cuts in spending on an unprecedented scale in modern times. They contrast particularly sharply with the recent period in which public spending has grown so strongly. They exceed the cuts made in the recession of the early 1990s and during the 1980s when the Thatcher Government was pursuing policies, including privatisation, to shrink the public sector and make it more efficient. Indeed, unless there is a rapid and unexpectedly strong upturn in the economy or Government decides to support a much higher than predicted level of public debt for an extended period, then cuts are likely to be deeper or run for a longer period than those made in the financial crisis of the mid 1970s when the UK Government sought assistance from the International Monetary Fund.
- 4.11** Some commentators have argued that the challenge of reducing public spending can be viewed with relative optimism. In effect the UK needs simply to reverse some of the recent growth and return to levels of public spending which were considered adequate in the early part of the current decade. Much will depend upon the views of government – which has targeted much of the recent investment to high priority services and explicit policy initiatives – and the reaction of the public to proposed cuts. The relative share of the cake taken up by benefits expenditure and interest will be important too. In many ways the past decade has been characterised by a strong emphasis on modernisation and improvement during which the public have been encouraged to expect higher levels of service with explicit emphasis, for example on increased personalisation and choice.
- 4.12** Despite extensive press coverage there remains real doubt about the extent to which the public are as yet prepared for what is to come: a combination of higher taxes and sustained cuts in services. High levels of funding have been maintained throughout the recession to date, whilst discussions about possible future cuts have frequently emphasised services which will not be subject to cuts rather than those which will. Similarly there is doubt about whether public servants are fully prepared for the measures which may need to be taken to live within much tighter spending programmes.
- 4.13** A key challenge for Government will be to maintain public support through such a difficult period. Not least, in some communities there will be concerns about cohesion and stability and the capability of reduced public services to manage likely tensions. Another challenge will be to manage and maintain the morale of the public sector workforce. It will have a critical influence upon the presentation of cuts ‘on the doorstep’ and on whether the rebalancing of the national budget feels orderly and well managed or uncontrolled and chaotic.
- 4.14** Government will also need to monitor carefully the impact of public spending cuts on the economy. There is a risk – particularly in Scenario B – that deeper cuts will damage the economy, derail recovery and prolong recession.

5 Strategic options

5.1 A wide variety of organisations and commentators have opined on the strategies which government should adopt in response to the scale of the challenge outlined. Few if any commentators argue that public sector organisations can simply manage through this significant adjustment of resourcing, continuing to provide the same level and volume of service at a markedly reduced cost. Most argue that a radical response of some sort is required. Three key options are discussed in more detail in this paper. They are:

Option 1:	Redefining the Relationship between the State and the individual
Option 2:	A significant de-layering of the public sector with many more decisions taken locally with minimal oversight
Option 3:	A major initiative to maximise economies by much more effective collaboration between public bodies.

6 Option 1 – Redefining the relationship between the state and the individual

6.1 This option implies review and reconsideration of three key variables:

- the services provided by the State
- the people to whom they are provided
- the way in which they are funded

6.2 State spending might be significantly reduced in a variety of different ways. Some existing services might be radically reduced or discontinued altogether; some services might be maintained but the population entitled to receive them might be significantly reduced in size; some services might continue to be offered but only on the basis that some or all citizens will be required to pay user fees ie extending the application of means testing.

6.3 Development of this option might lead to a 'core and options' approach to some public services in which a core, tax-funded service is provided, free at the point of delivery, alongside a range of additional services or service enhancements which are the subject of user charges. This model may be simplest to understand in relation to public services such as waste collection where the prospect of defining the core service (in terms of the nature and volume of waste and frequency of collection) is feasible and realistic and a finite number of additional services or service enhancements are likely to be offered. Many policy makers will also be considering whether this approach can be applied in areas such as adult social services. In this context the key challenge is likely to be to help people – individuals, families and communities – to do more for themselves and to reduce the areas in which the State is the provider of first resort.

6.4 In this option an important role of Government may be to manage equity by, for example, by to defining and specifying the guaranteed minimum core service to which everyone would be entitled. Not all public services would necessarily be subject to a national core service definition, however. For example, Government might feel that it is vital to define a significant core service in relation to health and social care services but take the view that there is a less compelling argument to define a core service for leisure services provided by the State.

- 6.5** This in turn highlights the need for Government also to clarify its thinking in relation to additional services or service enhancements. Should Government specify these options and require them to be charged in a consistent way throughout the country ie with a national scale of charges? Or should it take a more localist approach (see Option 2 below), allowing local public bodies to decide what should be offered and whether it should be the subject of charges? The rationale for the latter approach would be that the needs of communities significantly vary across the country. For example, State leisure services may be essential in one locality and unnecessary in another.
- 6.6** In making decisions about withdrawal of services, or the introduction of charges for services which have previously been free at the point of delivery, Government/public bodies must be mindful of likely user reactions and potential unintended consequences and associated costs. For example, charging for waste collection/disposal services may lead to increased 'fly tipping' and to increased regulatory and clean-up costs. Cuts in the welfare state will impact on social inequalities and, potentially, social mobility, important concerns of all of the main political parties.
- 6.7** Universal benefits such as state pensions and child benefits may be challenged under this option, leading to discussion, for example, about the age at which retirement pensions should become payable. In some circumstances such benefits represent a significant proportion of household income; in others they are a minor source of income. Means-testing may be used to vary entitlements in accordance with needs and to reduce overall costs. Similarly the commitment to maintain a comprehensive national health service, free at the point of delivery, may be questioned. This may come under pressure simply on grounds of affordability. Alternatively 'core and options' thinking may focus on personal conduct and responsibility, for example advancing the argument for user charges for individuals whose life-style choices have led to conditions which are in part self-inflicted.
- 6.8** This option may also lead to significant changes in the way in which public services are funded. For example congestion charging may be implemented more widely or full-blown road charging may be considered.
- 6.9** Alternatively we may see significant changes in the manner of delivery of public services, challenging longstanding conventions. For example, over the past decade the public have adapted to new arrangements for income tax assessment. In the new model the individual takes responsibility for a range of tasks which were formerly undertaken by tax officials. In effect this is a form of self-service which may be replicable in other areas.
- 6.10** Approaches of this type which have the ability to redefine expectations and to influence public behaviour on a significant scale are particularly powerful.
- 6.11** A pre-requisite for radical shifts in funding and/or service delivery is the availability of user-friendly, reliable technology. Incentives are also important because, for example, internet based service will not be immediately attractive to all users. In the self-service model, by moving more transactions (particularly routine, repetitive transactions) on-line, public bodies can avoid the much higher unit costs associated with person-to-person transactions. Where user charges apply, on-line services may be priced advantageously to encourage their use. Alternatively, in some circumstances it may be appropriate to offer an on-line service free of charge whilst charging for the more costly face-to-face alternative option. Transition to new charging models must be managed with great care and sensitivity with special concern for the position of users for whom on-line services represent a barrier to access.
- 6.12** Personal budgets for care services also fit into this category. As well as giving the individual greater choice and control they also potentially remove a range of costs from the State. Carefully structured they can also incentivise the individual to maximise the value for money secured from a fixed sum of public expenditure.
- 6.13** This option tends to place emphasis on the roles of public bodies in assessing needs, determining entitlements and commissioning services. These activities take on a greater significance in terms of demonstrating equity and securing value for money in a period in which fewer benefits/services are offered on a universal basis.

7 Option 2 – A significant delayering of the public sector with many more decisions taken locally with minimal oversight.

7.1 Potentially this option involves:

- transferring additional responsibilities to local agencies e.g. local councils, police authorities and primary care trusts
- creating a more permissive legal framework for local agencies so that they have the flexibility to judge local needs, to act and to innovate
- reducing the number and cost of national agencies which are currently engaged in oversight, steering, guidance and inspection of local agencies and services
- challenging and reining back the instincts of the centre to try to ‘command and control’ services which are managed locally.

7.2 In effect this option takes the view that if deep cuts in public services are necessary it is best to make many of those difficult decisions at local level where they can have regard to local needs and circumstances. For it to have practical effect local public bodies have to have the flexibility to make judgements about the public services which are right for their area. That means a shift away from the uniformity of national prescription and targets, in favour of different service offers and standards in different communities.

7.3 This brings into sharp focus the respective roles of national and local government/agencies, posing a number of fundamental questions:

- what are the defining characteristics of the services which must be managed by national/ local agencies?
- On what basis should government determine where responsibility for other services, which sit between these two extremes, should be placed? In the absence of a compelling balance of advantage should the default option be national or local?
- What is the appropriate role for national government in relation to locally managed services? Should Government establish an enabling framework for the service, and/or set minimum standards, and/or set performance targets, and/or carry out or arrange inspections, and/or intervene in case of failure?
- In what circumstances is value for money most likely to be maximised?

7.4 This option takes the stance that local is best. It argues that local public bodies should be given more to do and that they should be allowed to operate within an economical framework in which national oversight, inspection, target-setting and performance measurement are limited to levels which are essential for effective delivery of services. The default option should be local with reliance on local accountability mechanisms rather than national oversight to highlight shortcomings. In that sense this option implies more unequivocal reliance on local risk management strategies rather than national safety nets to detect and mitigate potential failings.

7.5 As well as considering new responsibilities which might be delegated to local public bodies, Government should also consider the case for new powers to enable local bodies to respond imaginatively to local needs. In particular there is an argument that local authorities should be granted a general power of competence to encourage innovation and to remove uncertainties which can sometimes inhibit the raising of finance for innovative projects. Similarly powers might be granted to enable tax increment funding of development schemes, recognising the importance of initiatives to continue to stimulate local economies. More generally, in the absence of national funding, local business communities may welcome greater local flexibility to fund essential infrastructure and regeneration projects.

7.6 In order to deliver a demonstrable cost/value advantage it is critically important that the existing machinery of oversight of local services is reviewed. That means looking carefully at all of the different agencies involved in aspects of oversight, development of guidance, setting of targets, assessment of performance, conduct of inspections, etc and understanding where critical value as opposed to mere comfort is added. This work must be undertaken in a systematic way across the full spectrum of the public services. The objective should be to increase effectiveness and to reduce cost. Crucially that means paying very careful attention to the definition of organisational roles and responsibilities and to the potentially high costs of reorganising or changing the responsibilities or focus of such agencies.

7.7 A radical interpretation of this option would also include significant de-layering within local agencies. This is about empowering front-line staff to make more decisions without supervision or oversight and significantly reducing the length of internal management chains. It requires the review of current management activities and arrangements for delegation of authority. Front-line staff should be clear about the extent of their authority and should be encouraged to take decisions accordingly. Similarly they should be clear about decisions which require management approval and the procedures to access such approval efficiently. Effective leadership and management will remain critically important ingredients in the overall chemistry of organisations. In particular the ability to lead, drive and deliver change will be at a premium.

7.8 The logical consequence of this option would be much greater variability of services across the country, reflecting a range of different decisions about the priorities which are appropriate in different localities. Critics will describe this as a return to the postcode lottery; proponents will view it as local variation determined by local decision based upon local needs.

8 Option 3 – A major initiative to maximise economies by much more effective collaboration between public bodies

8.1 This option is predicated on the assumption that the complexity of UK public sector structures and the prevalence of silo thinking leads to significant inefficiencies. Over the past few years high profile efficiency programmes have been a feature of Government policy but they have focused largely on improving efficiency within public bodies. Relatively little has been done to drive out inefficiencies between public bodies or across the sector as a whole. This raises challenges for more effective 'horizontal' collaboration, for example, between Whitehall Departments or organisations and individual institutions working in the same locality, as well as more effective 'vertical' collaboration, between national, regional and local bodies.

8.2 Shared services and the recent Total Place initiative have begun to explore the potential of a much stronger focus on collaboration between bodies, including private and third sector partners and individual institutions like schools which have sometimes been encouraged to be inward rather than outward-looking. This option implies significantly greater use of these and other similar techniques. Rather than the innovative exception, defined by a specific service or theme, they would become the widely applied good practice norm for most or all services.

8.3 This is unlikely to be an easy option. Although there are some good examples of public bodies collaborating to achieve economies, eg purchasing consortia, these are relatively few and far between. In many cases bodies work closely together for reasons other than efficiency, eg to address cross-cutting issues or overlapping responsibilities. Too often they do so with conspicuous difficulty. At worst the actions of one body may impact adversely on another without prior warning or discussion.

8.4 To an extent this makes the case for this option particularly compelling. If all public bodies are to be engaged in the business of making cuts in services for a protracted period it is absolutely imperative that they are working closely together with a shared determination to deliver the best possible outcomes for communities.

- 8.5** By creating linkages and developing close collaborative relationships between bodies which have little or no history of joint working the hope is not only that costs can be reduced but also that innovation can be unlocked, for example, to redesign services in a radically different way around the needs of shared clients.
- 8.6** One of the key questions for government concerns the governance and accountability of local partnership working. Should partners be left to negotiate these arrangements locally or should one agency be specifically empowered to convene and lead the partnership? Is Government content for the public sector to present as a loose federation of independent organisations in which the quality of joint working is inconsistent, or does it wish to encourage the development of a more unified, joined-up public service in which high standards of co-operation are the norm? Are new powers necessary to enable and/or to incentivise pooling of resources on a significantly more extensive scale in the public interest?
- 8.7** Government should also consider the nature of the framework which will be appropriate to drive success. Do we need a national template in which all agencies within a given locality are obliged to collaborate or a permissive approach in which individual agencies are free to select their own partners, locally or elsewhere?
- 8.8** Like Option 1, this option tends to focus special attention upon the roles of public bodies in assessing needs and determining entitlements. Significant economies may be possible if public bodies collaborate to carry out these functions in an efficient joined-up manner rather than via a series of uncoordinated processes which involve high levels of duplication of effort. This also has the potential to lead to a significant improvement in service for citizens.
- 8.9** This option also encourages public bodies to collaborate in commissioning services with the prospect of achieving savings from greater scale and a more strategic approach. In turn this may lead to greater understanding of the interdependencies which exist between public bodies providing related services or sharing the same clients. In such circumstances there should be a shared commitment to find solutions which deliver high quality service to the citizen and best use of resources from the perspective of the overall public purse. Activities like ‘cost-shunting’ which give priority to the financial interests of individual organisations at the expense of the public purse as a whole may be addressed constructively under this option providing that there is the political and managerial will to do so.

9 Combination options

- 9.1** The three strategic options outlined are not necessarily mutually exclusive. On the contrary CIPFA and SOLACE conclude that the best strategies will need to draw on all three approaches. For example a policy of devolving greater responsibilities and powers to local agencies (option 2) would sit very logically with a policy to improve collaborative working across Government and between Whitehall and local public bodies and to encourage local agencies to work in a more joined-up way to maximise efficiency (option 3). It would also work well within a permissive framework in which local agencies were able to make judgements about the State “offer” in the context of local needs (option 1); a particular service might be vital in one locality/ community but more marginal in another.
- 9.2** Difficult spending choices will still be necessary. But if local agencies are given access to the necessary levers they are well placed to make decisions which best serve the public interest and the needs of local communities.
- 9.3** National frameworks will continue to be important but the challenge for Government will be to ensure that they are strategic and focused only on the issues which really do need to be determined at the national level. In many ways the role of Central Government should be to support rather than control the work undertaken locally to manage within tightly constrained budgets.
- 9.4** Levels of risks will inevitably increase. Reducing management costs in individual organisations often means reducing the capacity to performance manage and to assure. Making such adjustments on a large scale within a tight timescale across broader systems must carry with it significant levels of concomitant risk requiring serious attention to well developed risk management responses.

10 Getting ahead of the game

10.1 After the General Election events are likely to move very quickly. The Government will make decisions in relation to the questions posed in para 1.2 of this paper, namely:

- What scale of funding gap needs to be addressed and over what period?
- To what extent is the gap likely to be closed by increasing taxes and/or reducing spending?
- To what extent can spending reductions be eased by measures to improve efficiency and increase productivity or by raising increased revenues?
- What scale of cuts in services will be required and where will they fall?
- How can spending reductions which involve cuts in services be managed most effectively?

Whatever the level of cuts determined both Government and local decision makers will face extreme pressure to implement necessary changes and deliver required savings on challenging timetables.

10.2 In this context it is critically important that public sector leaders – politicians and officials – anticipate these developments and prepare for them. Ill-considered decisions are likely to make matters worse rather than better. If cuts are too deep recovery from recession may be seriously impaired or even reversed. If cuts are poorly targeted the long term implications may be dramatic. Easier cuts are not necessarily the right cuts. It is critically important that public bodies do not solve today's problems by passing heavy costs on to future generations. There are risks that this may happen by neglect rather than by active decision making. For example, if public bodies fail to play their part in relation to the challenges of climate change – perhaps taking the view that resolving local financial problems must take precedence – the consequence will be much greater challenges and costs facing future generations of taxpayers.

10.3 In planning how and where cuts of the likely scale (Scenarios A and B) might be made, they should consider the three strategic options outlined in this paper and the actions which would be necessary to expedite them. These include:

In respect of Option 1, Redefining the relationship between the state and the individual,

Action 1. Government should consult widely and work with local decision makers to develop a clear and explicit overarching policy in relation to the offer of services by the State to the Individual. It should explain how and by whom decisions will be taken to vary the services offered, and/or the user group to whom they are provided, and/or the way in which they are funded.

Action 2. Both national and local leaders should consider the validity of approaches such as 'core and options', 'self service' and personal budgets and consult widely on the feasibility and appropriateness of their application to new services.

In relation to Option 2, A significant delaying of the public sector with many more decisions taken locally with minimal oversight,

Action 3. Government should consult widely and work with local decision makers to develop a clear policy in relation to the respective roles of national and local government/agencies. It should explain how and by whom decisions will be taken to vary current arrangements. It should be clear about the default assumption in the absence of a compelling case for either national or local management.

Action 4. Government should consult widely and work with local decision makers to develop a clear policy in relation to arrangements for oversight of locally managed services. This should explain the extent of oversight to be practised and the mechanisms through which it will be exercised. It should explain the process by which existing oversight activities will be reviewed and, as appropriate, rationalised and/or reduced in scale.

Action 5. Government should consult widely and work with local decision makers to identify any amendments to powers which will be necessary to enable local public bodies to operate effectively within the framework of its new policy.

Action 6. Leaders of all public bodies should consult widely and prepare clear plans in relation to empowering front-line staff, enabling, as appropriate, the removal of layers of management and/or the reduction of costs of supervision within local public bodies.

In relation to Option 3, A major initiative to maximise economies by much more effective collaboration between public bodies,

Action 7. Government should consult widely and work with local decision makers to develop a clear policy on collaborative arrangements between public bodies (having regard also to partnership models which involve private and third sector organisations). It should be clear whether it favours the loose federation of independent organisations model or a more unified public service. It should explain its expectations and consider the governance and leadership models which are most likely to deliver positive outcomes.

Action 8. Local leaders should work with existing partners and consider new alliances which may increase the urgency and momentum of partnership working to ensure that it is fit-for-purpose and capable of contributing positively to the challenges ahead including in particular the challenge to reduce costs.

10.4 Perhaps there is also an overriding issue for public sector leaders to consider – the nature of the organisations most suited to the challenging conditions ahead. How organisations are led and managed matters. Not least it impacts on the morale and motivation of front-line staff and reflects in the way in which services, and service changes, are presented to users. If we want our public bodies to be ‘glass-half-full’ organisations we have to have well developed strategies to get the best of every member of the workforce, and we have to take care not to undermine those strategies by ill-considered actions.

Action 9. Government should consult widely and work with local decision makers to develop a clear policy in relation to the nature of the public bodies which it hopes to encourage. It should explain what it will do, and what it will not do, to create the conditions in which organisations can develop positively albeit in a difficult climate.

Action 10. Leaders of organisations should anticipate Government policy and consult locally on how leadership and management, skills and competencies, systems and processes, etc should be re-calibrated to meet the demands of a new exacting era.

10.5 Many of these actions emphasise the need for consultation. This is critically important. Government must aim to create an atmosphere in which it is seen to be working with public bodies and the public at large to adjust spending to affordable levels. It must make every effort to avoid the impression that it is inflicting cuts without understanding of or sympathy for local consequences. That means not going-through-the-motions consultation, but real open-minded engagement and listening to the responses of a range of consultees including service users, taxpayers, practitioners and representative bodies. Handled well, this process will also play an important role in adjusting expectations about future funding and service levels.

10.6 CIPFA and SOLACE stand ready to play their part, working with Government and other partners to meet the significant challenges ahead and to deliver the best possible outcomes for communities throughout the UK.

