

Finding our way through

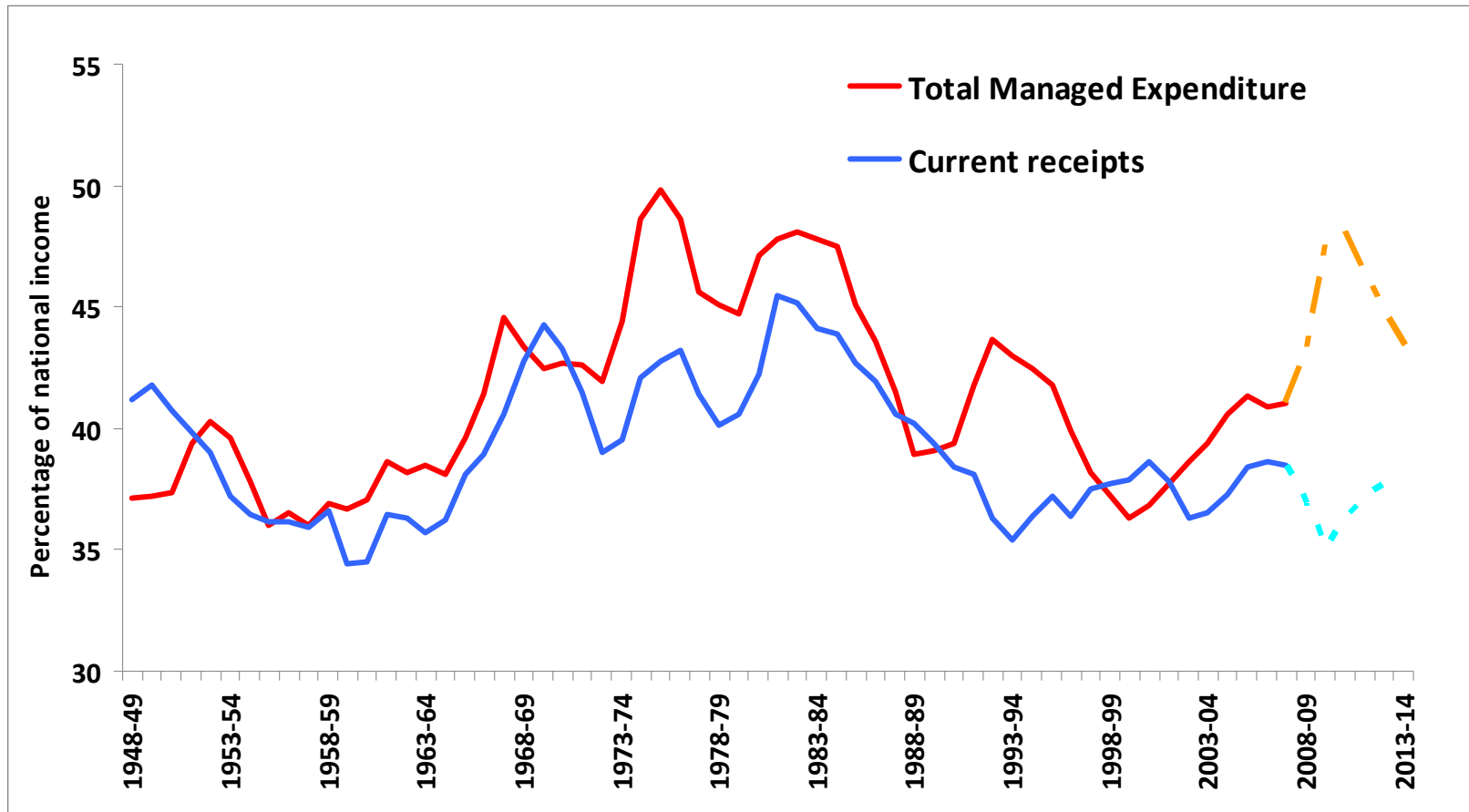
Strategic Options Analysis for the future of Public
Services

Roger Latham CIPFA

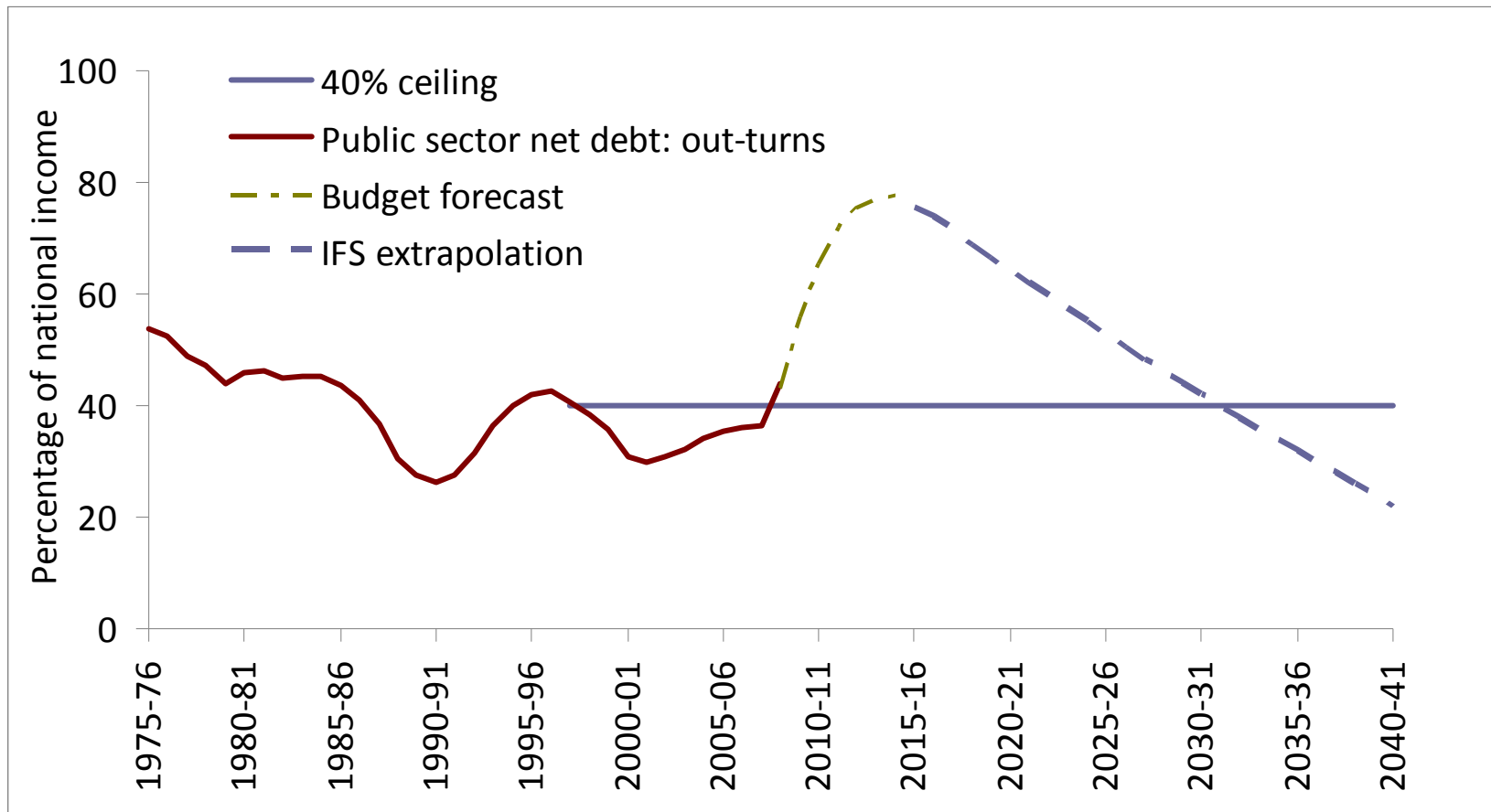
Outline

- Strategic Analysis
 - Stage 1 – Strategic context
 - Stage 2 - Situational analysis
 - Stage 3 – Mapping options on to timeline
 - Stage 4 – Implementing agreed strategy
- Strategic Options
 - H1, H2, H3
- Mapping on to underlying economic policy
 - Keynesian deficit financing
 - “Sound Money”
- Mapping on to the “After the Downturn” strategic options
 - Big state/little state boundary shifts
 - Delegating to the frontline
 - Partnerships, shared services, and economies of scale

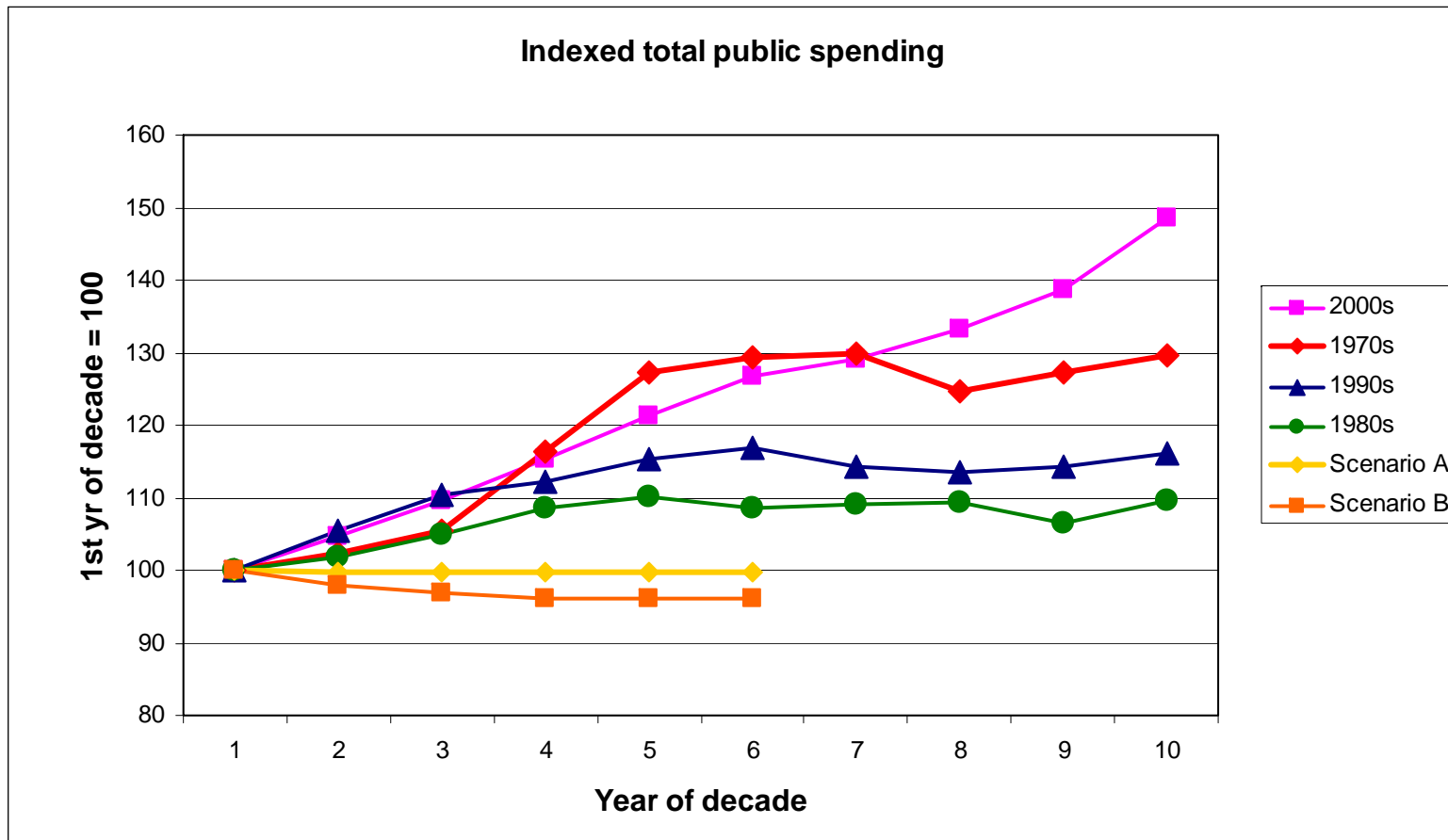
TME vs current receipts



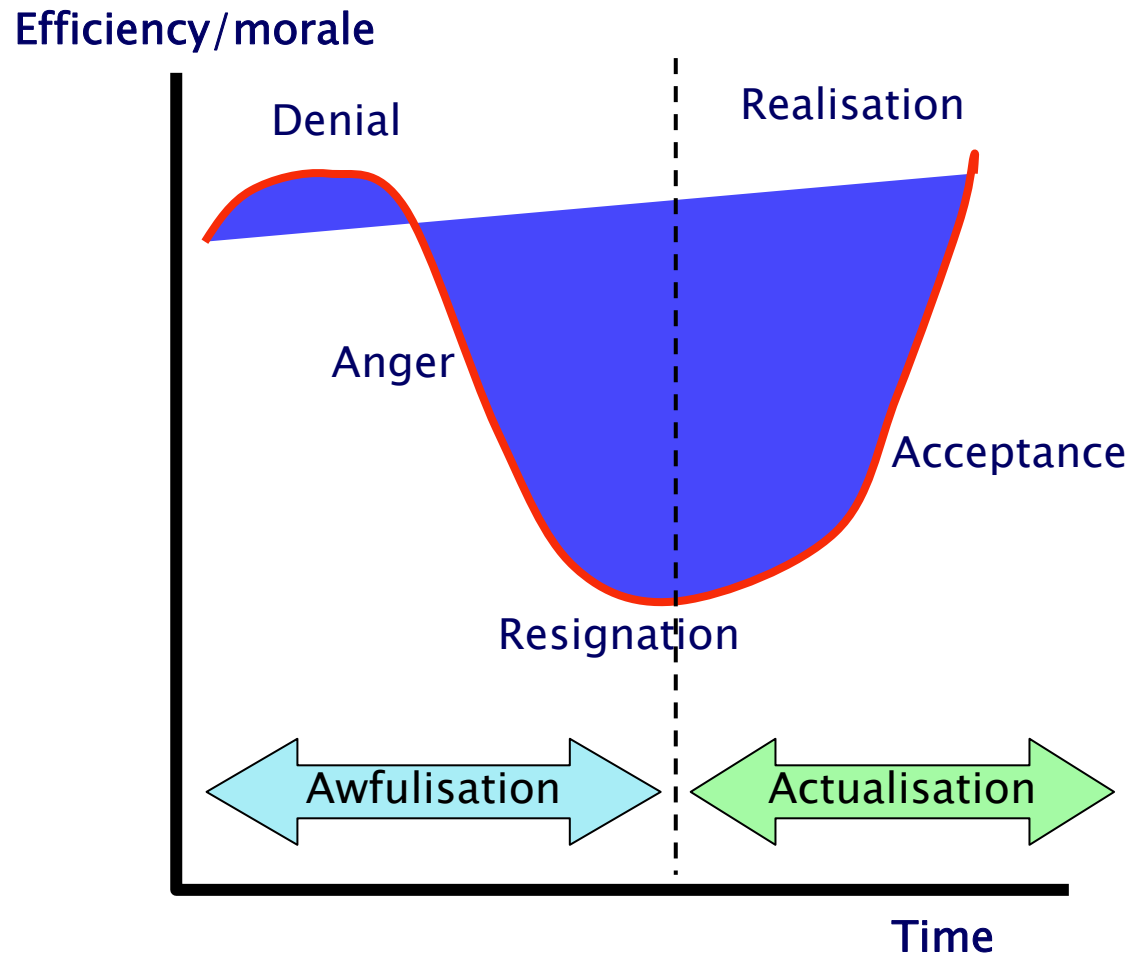
Aggregate net debt



Total public spending, in real terms

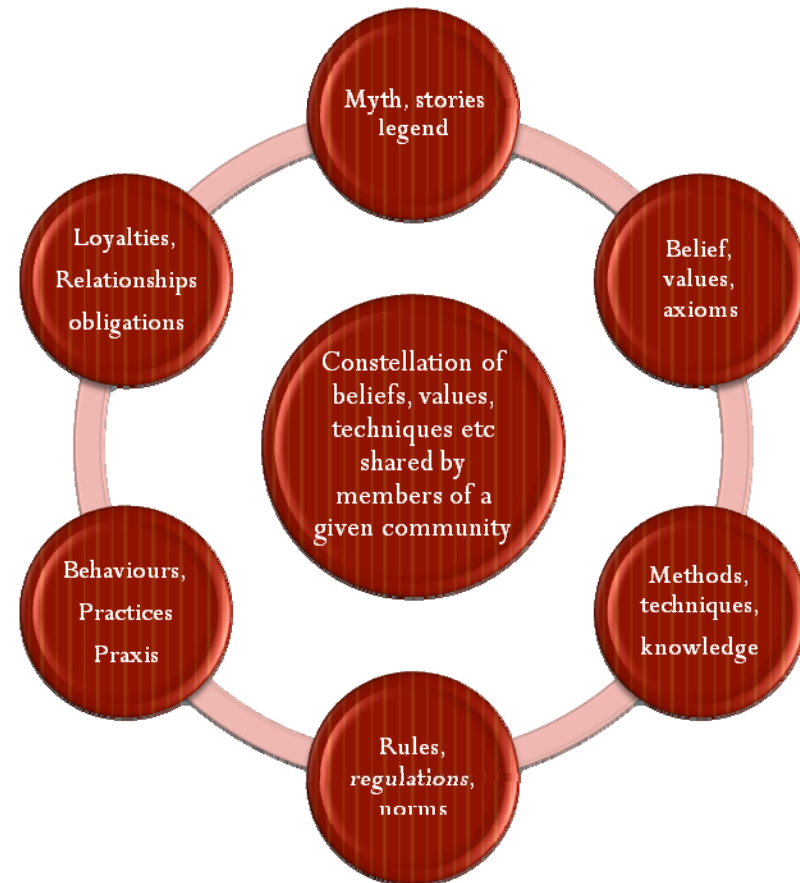


Reacting to the Recession



Strategic Options

- **H1**
 - Short term, expedient, temporary
 - Paradigm unchanged & unchallenged
 - “Business as usual” assumption
- **H2**
 - Medium term, change
 - Paradigm unchanged, but elements may be challenged
 - Changed business environment
- **H3**
 - Long term, revolutionary
 - Paradigm challenged and changed
 - “Life, Jim, but not as we know it”



McKinsey's 'Three Horizons' of response to the recession (adapted to the public sector)

H1. Bridging

- Coping strategies
- Trim fat, be flexible – sees us through
- Have contingency plans in case of worse
- Quick fix, rough justice, equality of pain

H2. Don't Waste a Good Crisis

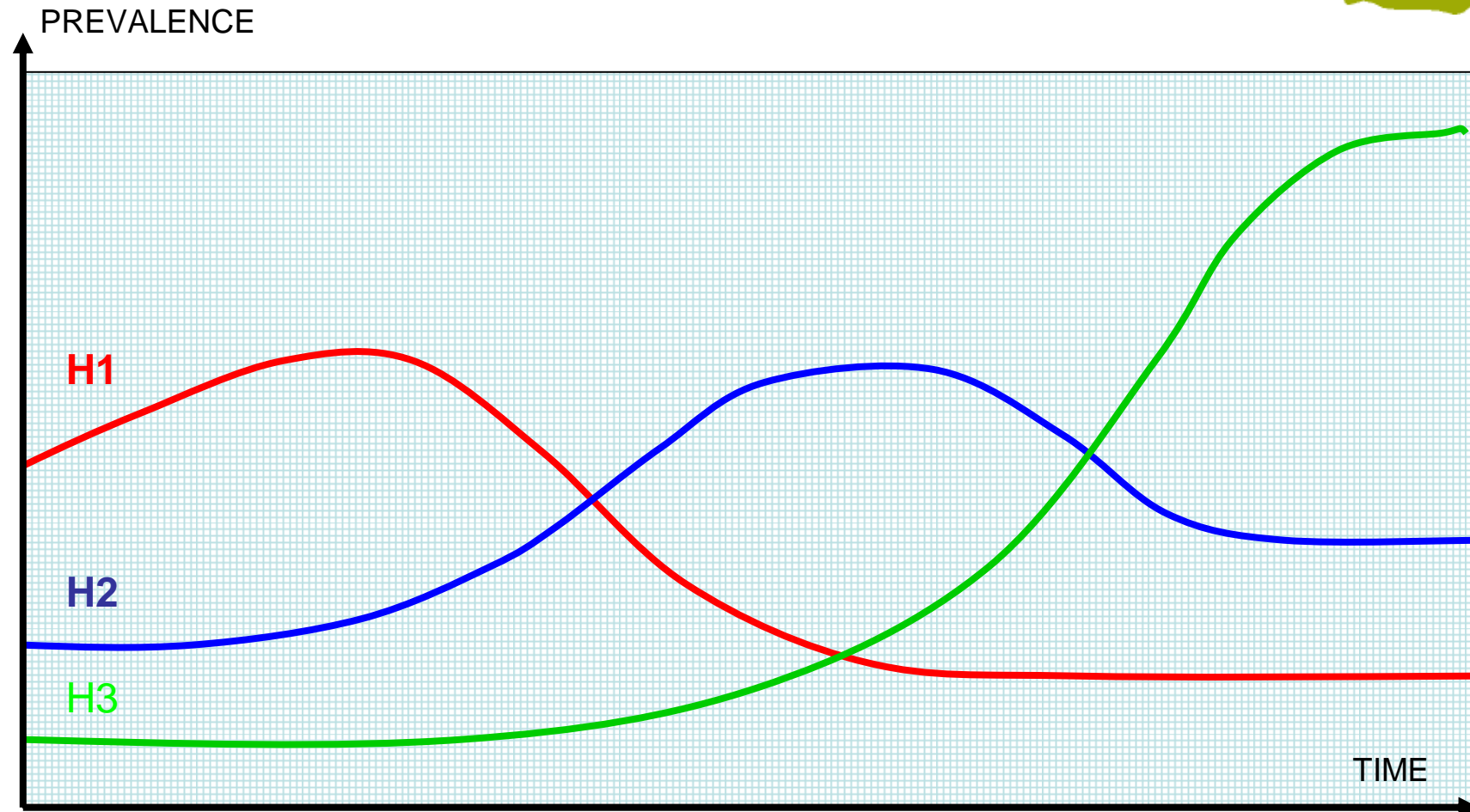
- 'Reset' costs at lower levels, take on sacred cows
- Be aggressive early
- Support top priorities and slash lowest
- "Wither on the vine" or "make it self-sufficient" alternatives
- "Use it or lose it" challenges

H3. Through Cycle

- Shift resources to strategic priorities
- Schumpeterian technology shift
- Reorganisation (internal or external)
- Shifting the public/private boundary
- Remove legacy services



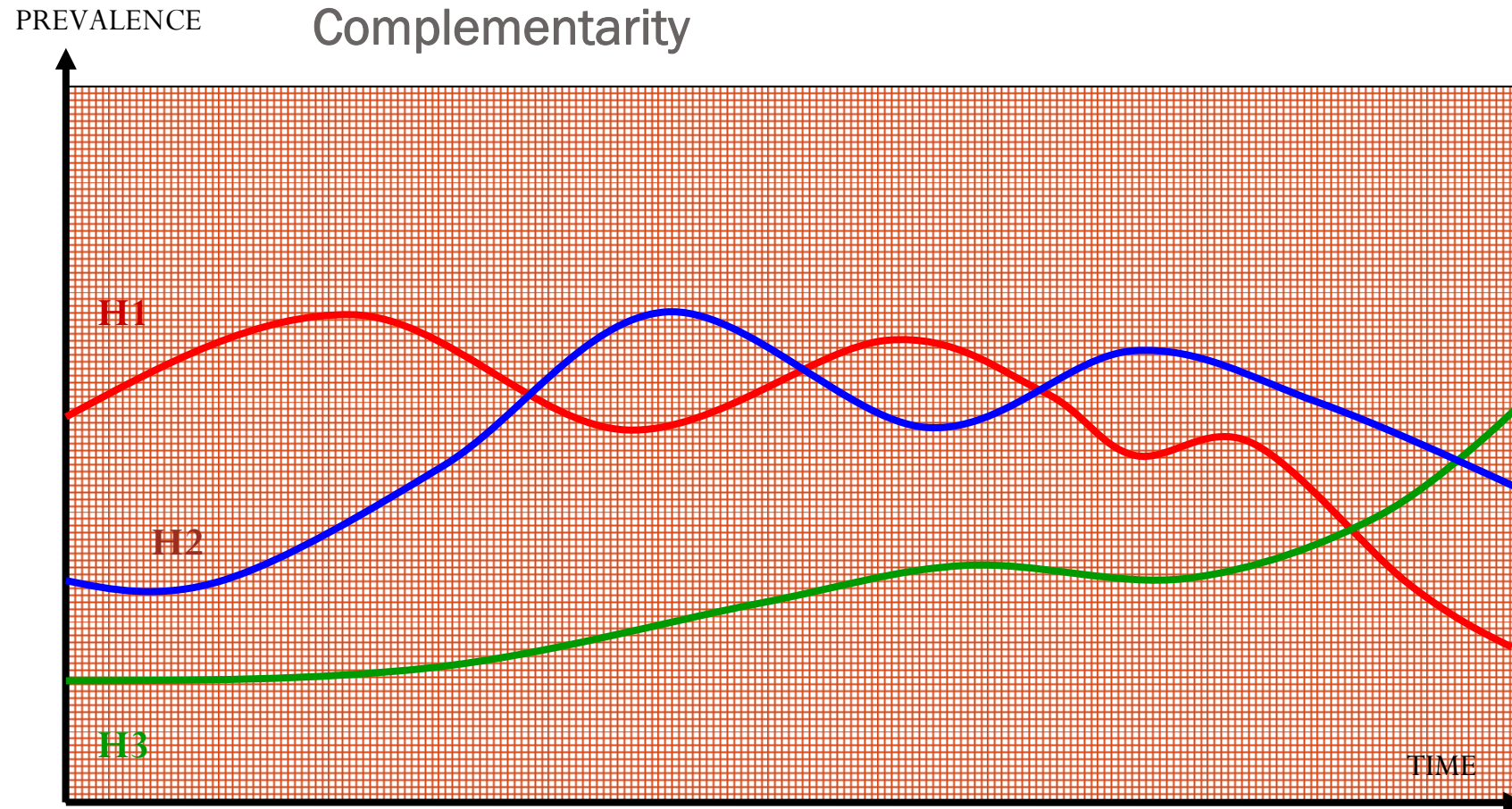
The Three Horizons



Horizon 1 is a current paradigm that works well until changes in the environment plus its own diminishing returns put it on a curve of decline. Meanwhile **Horizon 2**, aware of this in diverse ways is innovating more effective approaches which eventually overtake.

In the background, a completely new paradigm is emerging as **Horizon 3**. It appears for a long time to be marginal and ineffective but since it matches better the new environment it eventually takes over. The **Horizon 2** innovations have served as enabling the transformation.

Horizon interactions: Capture, Extension, and Complementarity



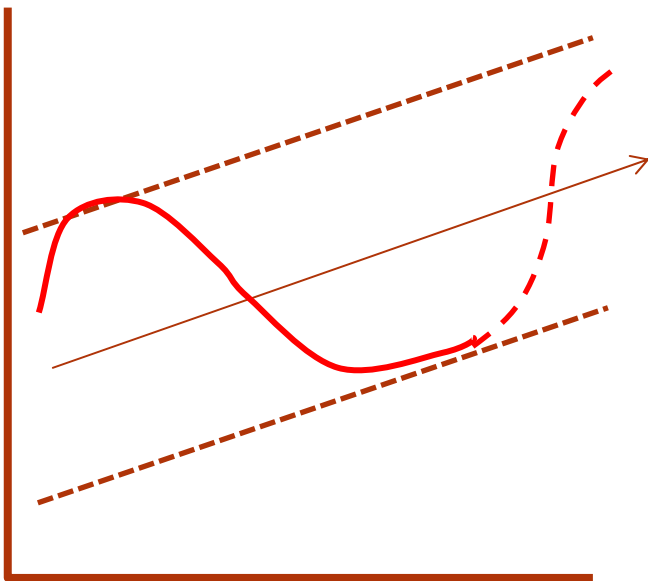
Horizon 1 is challenged by changing conditions. There are strong innovation opportunities taken by **Horizon 2**. However, each wave of innovation is captured by **Horizon 1** and applied to extend its life. This may go on for several cycles.

Horizon 3 remains in the background since it is so different from **Horizon 1** that there is no place for it in the mainstream. It continues to languish in the margins until a much larger and long term change occurs. When **Horizon 3** change comes, **Horizon 1** can support status quo survival until the radical change completed.

Recession or Depression?

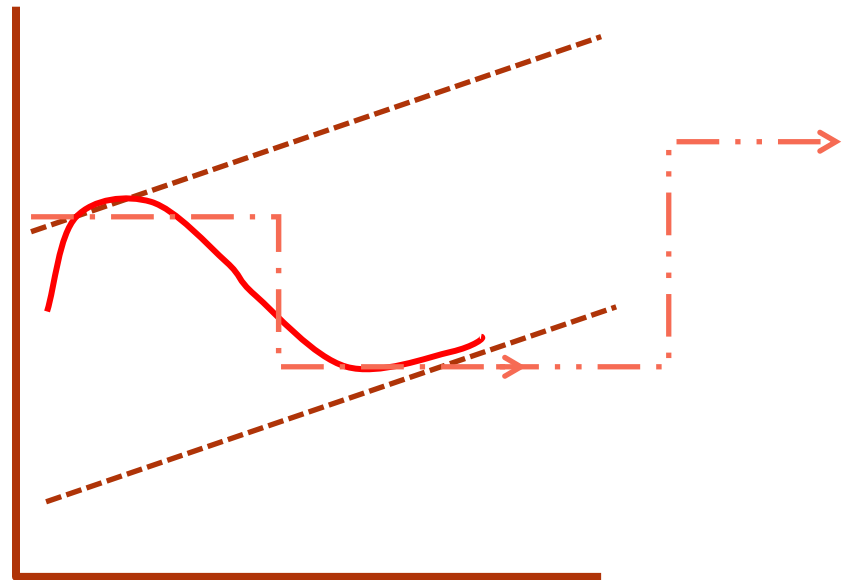
Recession

- Looks like.....



Depression

- Looks like.....



Keynes or “sound money”?

- ▶ For Keynes
 - Drastic public service cuts & “double dip”
 - “too little, too late” 1-2% GDP will not offset need for 3-5% growth
 - Wrong sort of stimulus - maximise your multiplier!
 - Finance or the real economy
 - Tax cuts or spending
 - Time shifting – “scrappage schemes”
- ▶ For Sound money
 - AAA to BBB
 - Exchange rate drop
 - Exports sluggish – global demand
 - Inflationary effects

Mapping to economic policy options

“Sound Money”

- Economic impact
 - Short timescale
 - High impact
 - “double dip” risk – prolonging the pain
- Morale
 - “bite on the bullet” impetus to change
 - Equity & fairness or “no go”
 - Greek tragedy & social unrest
- Strategic Options
 - Favours H1/H2
 - No time for H3
 - Sub-optimal outcome

Keynesian deficit financing

- Economic Impact
 - Long adjustment period
 - Lower initial impact
 - “higher cost base” risk – prolonging the pain
- Morale
 - Deming’s distort the data & system phases
 - Attritional impact – loss of confidence
 - Displacement and incompleteness
- Strategic Options
 - Favours H3 complemented by H1
 - “Best is the enemy of the good” – H2 squeezed out

“After the Downturn” - Strategic Options

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

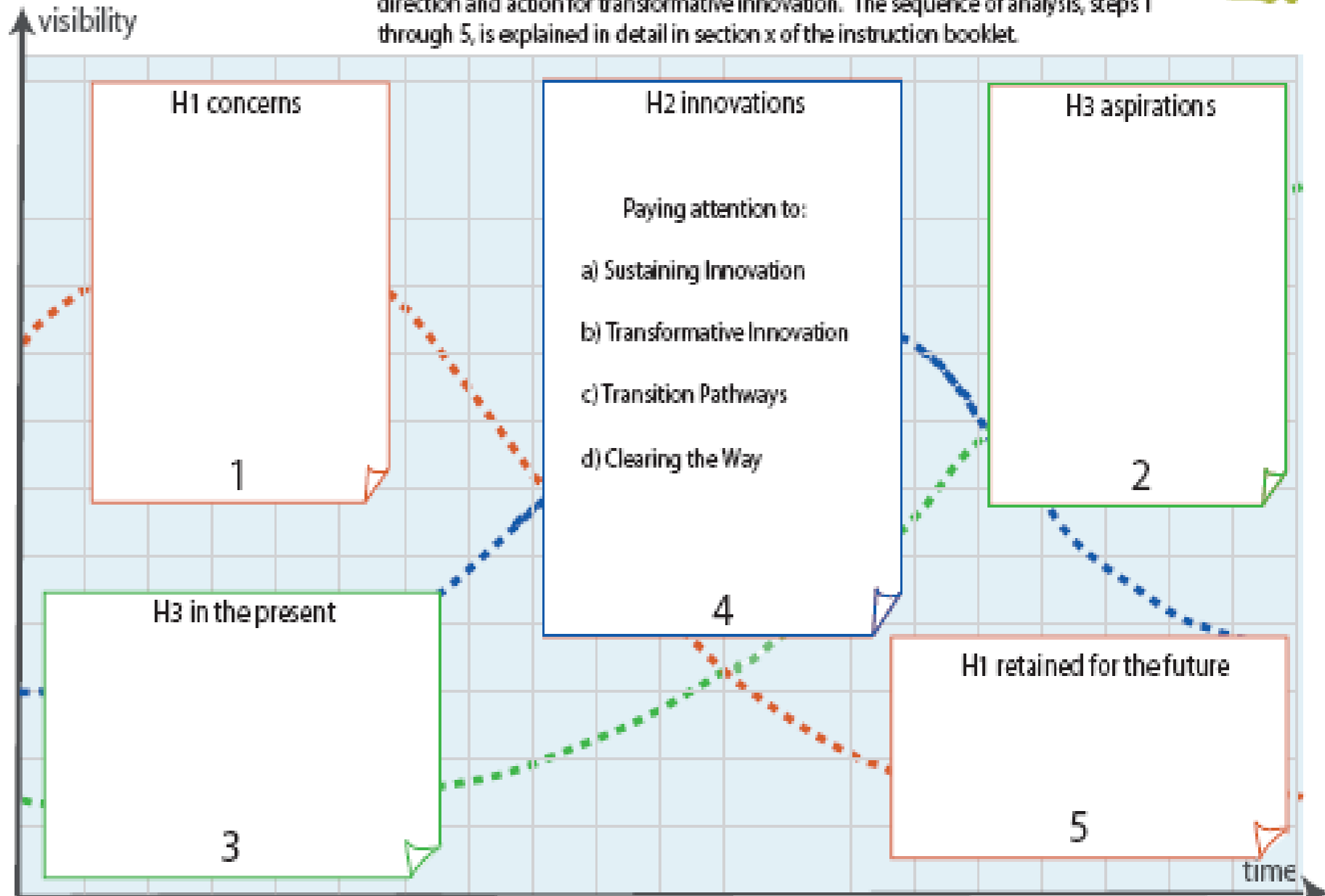
Mapping to Strategic Options

	Big State/Small State	Delaying & Devolving	Collaboration
H1	<ul style="list-style-type: none"> •Capital cuts •No reinvestment •Stop grant aid 	<ul style="list-style-type: none"> •Local tax/charging capacity •Cash limit freeze •Pay freeze 	<ul style="list-style-type: none"> •Cut partnership overhead •Common Purchasing
H2	<ul style="list-style-type: none"> •“Big Society” •Co-production •Service prioritisation 	<ul style="list-style-type: none"> •“Use it or lose it” •IT systems upgrade •Seed corn funding 	<ul style="list-style-type: none"> •Public/private partnerships •Shared Services
H3	<ul style="list-style-type: none"> •Remove statutory duties •Self sufficiency for lower taxes •Sustainable communities 	<ul style="list-style-type: none"> •Organic not machine organisation change •New technologies 	<ul style="list-style-type: none"> •Reorganisation •Total Place



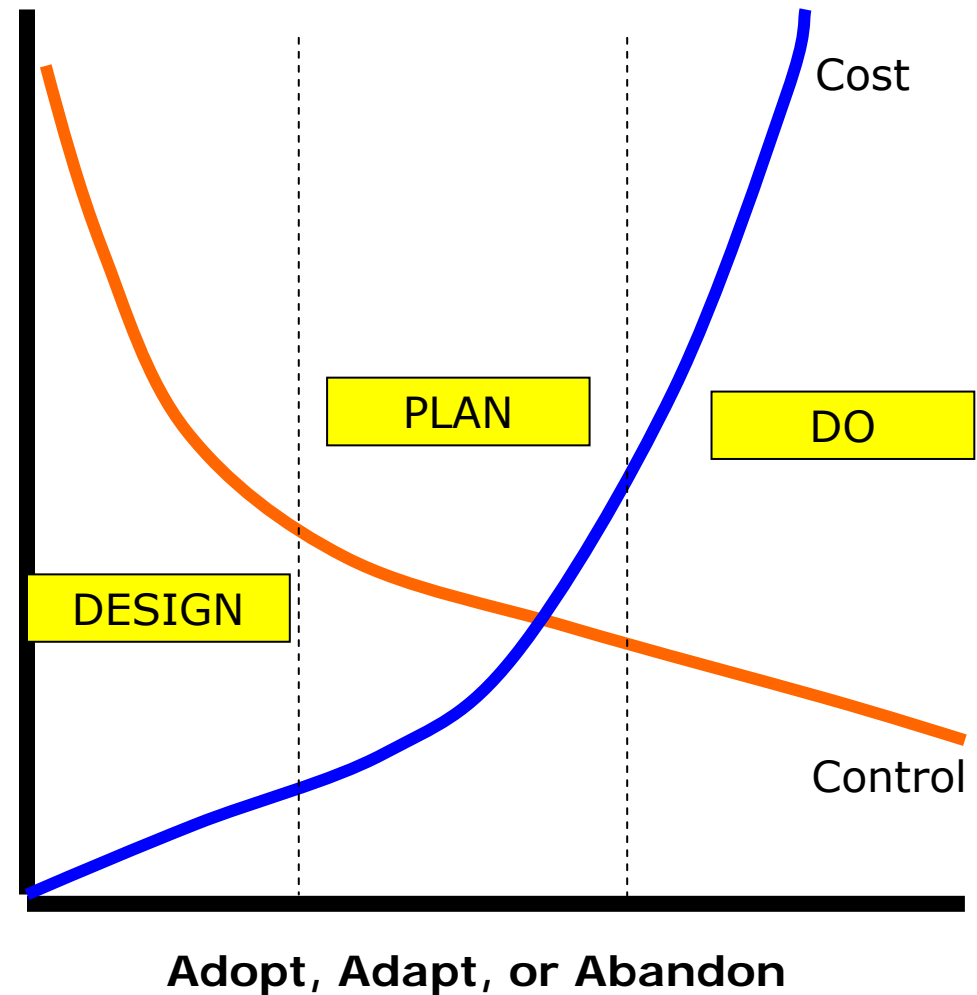
Three Horizons Phase 2: Planning for Transformation

This chart provides a template for moving from the strategic conversation to setting direction and action for transformative innovation. The sequence of analysis, steps 1 through 5, is explained in detail in section x of the instruction booklet.



Implementing Strategy

- H1
 - Task Groups
 - Delegation to managers/frontline
 - The law of unintended consequences
- H2
 - Project managed
 - “runners, repeaters & strangers”
 - Mandates & management
- H3
 - Projects & Programmes



Accountancy - Saving the World



Changing Leadership Roles

