

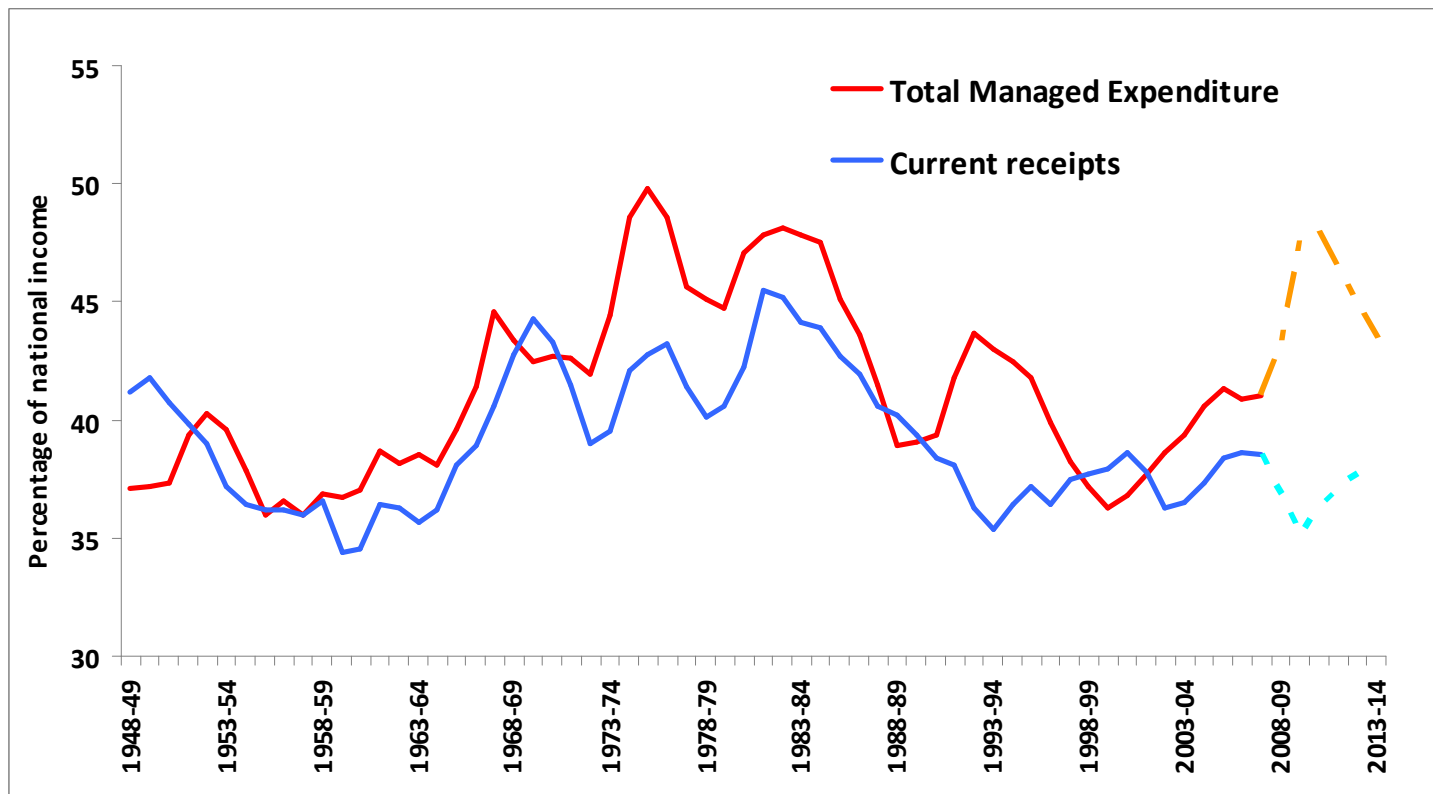
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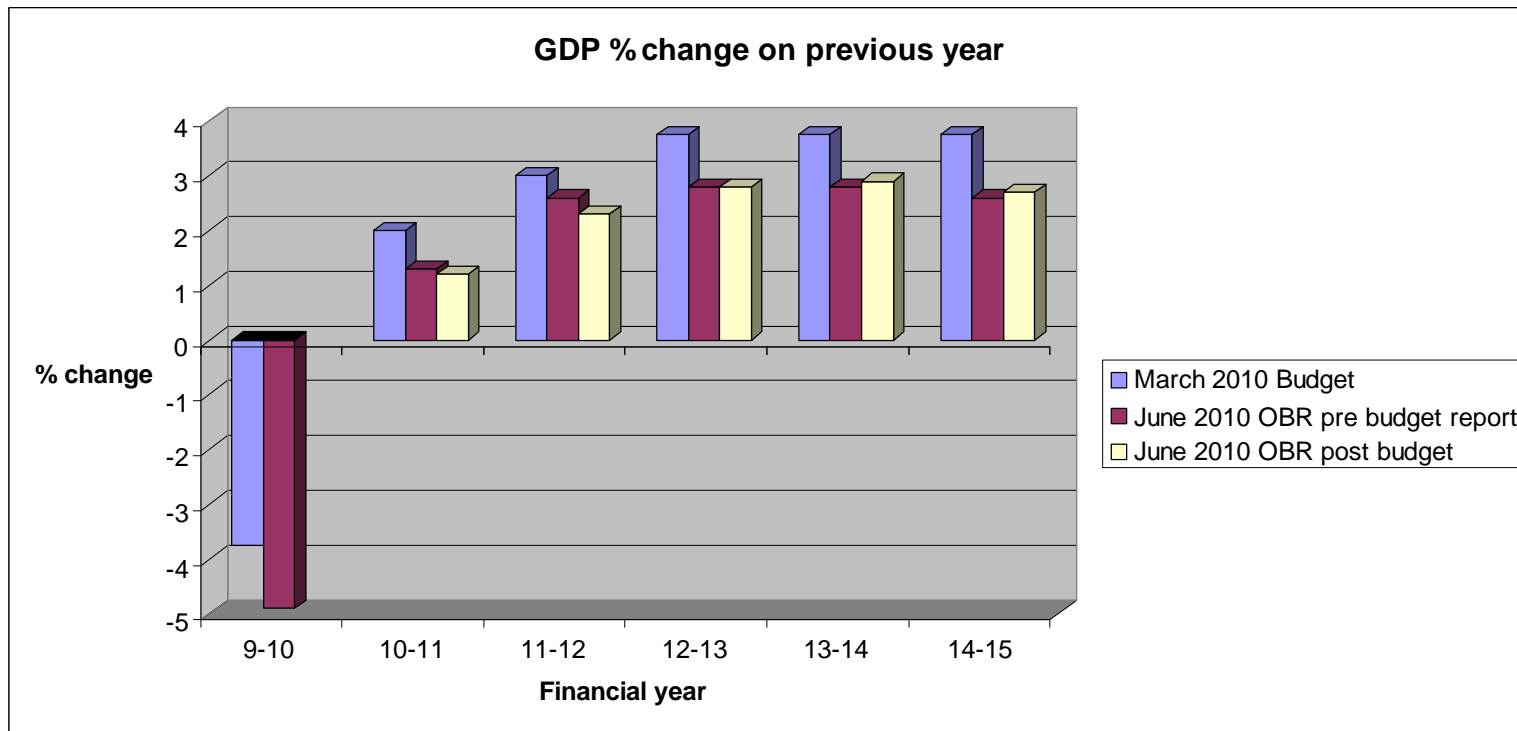
we haven't got the money, so
we've got to think

Jaki Meekings Davis
CIPFA President

Why are we all here? The Rebalancing Challenge



Why are we all here? GDP projections revised



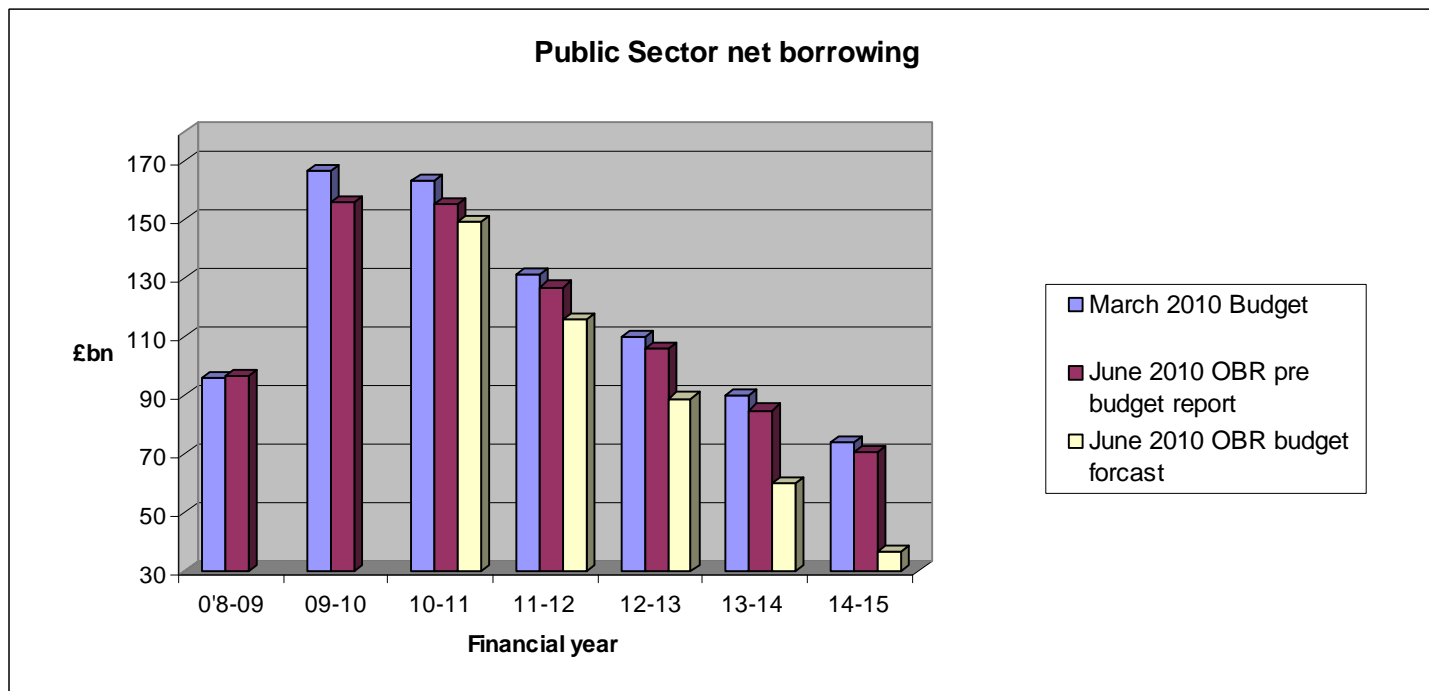
Why are we all here? 2010 Budgets: overall picture

- Total consolidation of £113 billion per year by 2014-15
- £128 billion per year by 2015-16
- 77% of the total consolidation through spending reductions
- Structural current deficit will be eliminated by 2014-15
- Projected surplus of 0.8% of GDP in 2015-16
- Public sector net debt will peak at 70.3% of GDP in 2013-14
- Declining to 67.4% of GDP in 2015-16

Why are we all here? Emergency Budget measures

- Public sector net debt as percentage of GDP to be falling at a fixed date of 2015-16
- Additional consolidation of £40 billion per year by 2014-15
- No further reductions in capital spending beyond those already announced
- £11 billion of welfare reform savings
- Two year freeze in public sector pay, except for those earning less than £21,000 a year
- £8 billion per year from net tax increases
- 80% of the additional consolidation measures through spending reductions

Why are we all here? Borrowing forecasts



Key risks

- Double dip?
- Inflation forces interest rate rise?
- The strength of the Coalition?
- Fairness test

Upcoming agendas

- Fixing the financial deficit
- Success of spending cuts
- Wider political aims
- Personal ambitions
- National standing

Approaching the cuts (1): Overview

- DELs cut in real terms by 14% by 2014-15
- NHS and DFID budgets protected
- Unprotected DEL cuts 25% on average

BUT

- Education and Defence cuts limited to 10%
- Other DEL cuts average 33%
- AME savings might reduce scale of cuts

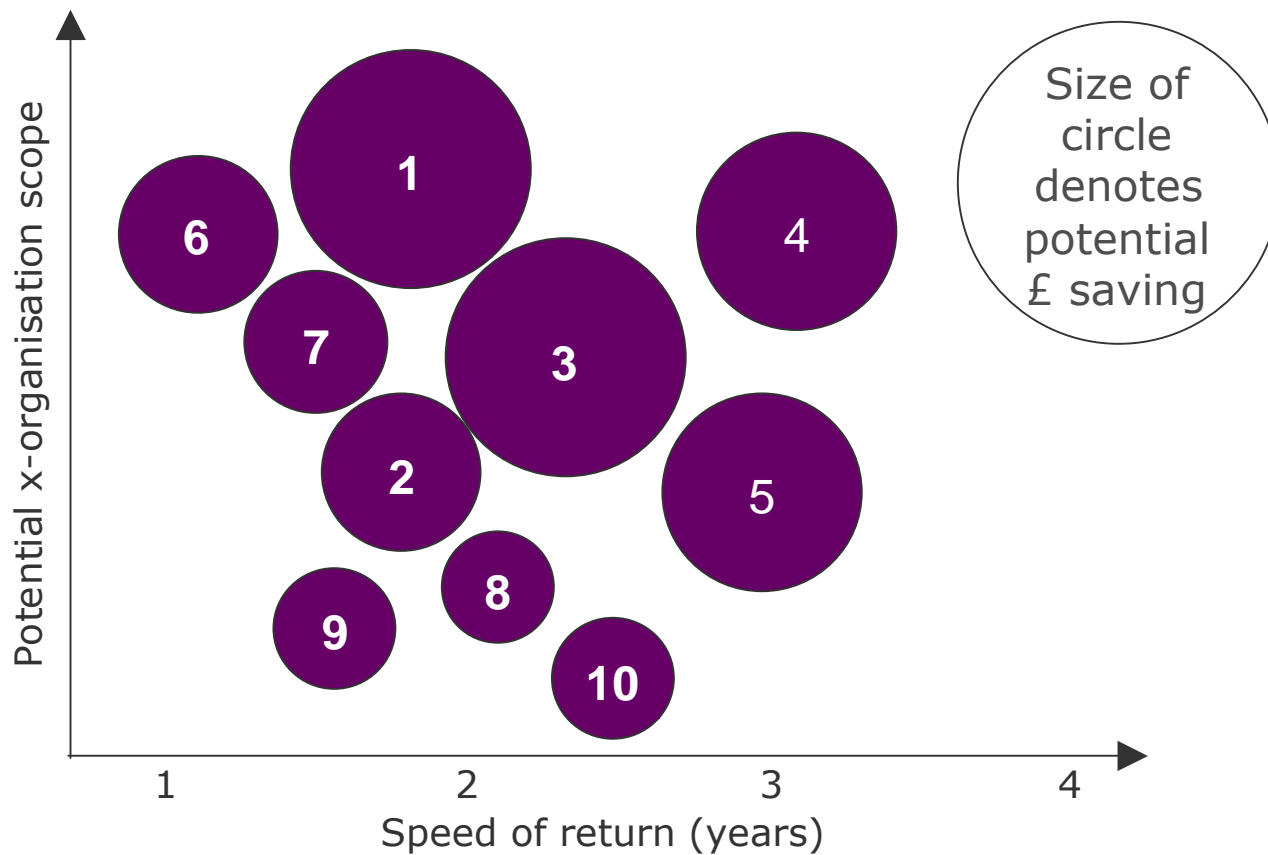
Approaching the cuts (2): Spending Review

- Departments provided 2 cuts scenarios by end July
 - 25%
 - 40%
- £6.2 billion efficiency savings in 2010-11
- Review of all previous Government spending decisions
- £1.5 billion EYF-funded commitment cancelled
- Spending Review announcement 20 October

Approaching the cuts (3): Key actions

1. Lean and systems thinking
2. Sharing of people and assets
3. Improving procurement effectiveness
4. Shared service provision
5. Restructuring and de-layering
6. Zero and priority-based budgeting techniques
7. Implement good financial management across the organisation
8. Effective use of benchmarking
9. Reducing non-essential services
10. Improving asset utilisation and reducing energy consumption

Approaching the cuts (4) Potential impact of key actions



CSR: key processes

- June Budget set out mandate for Government to pursue
- Departments submitted initial plans for delivery with reduced budgets
- Series of reviews taking place
- Public consultation has 100,000 ideas for efficiencies
- Cabinet Secretary and Perm Sec at the Treasury chair an officials committee
- Public Expenditure Committee (PEX) of Cabinet Ministers make final decisions, signed off at Cabinet

CSR 2010: key reviews

- Commission on public sector pensions
- Strategic defence and security review
- Local government finance review
- Commission on long-term care
- Review of legal aid
- Review of sentencing policy
- Review of the housing revenue account
- Review of terms and conditions for police employment
- Review to set the date at which pensions age rises
- Lord Browne's higher education review
- Review of support for part time students

CIPFA's work pre-CSR

- **Support for members** eg Leading in Hard Times, Facing the Cuts conference, Scotland's Collective Challenge seminar, Local Authority CFO Summit
- **Thought-leadership** and **influencing the agenda** eg After the Downturn, After the Manifesto, Role of the CFO
- Direct **submissions to Government** eg submission to CLG on local government cuts issues, Hutton's pension review submission, NHS White Paper consultation response
- **Advocacy** including engagement with politicians at party conferences

What will CSR contain?

- Reforms that create opportunities for income generation?
- Reforms that enable pan-public sector working?
- Place-based budgeting?
- Shared services and cost-reduction for management?
- Linking retirement age with life expectancy?
- Reducing the public sector paybill?

Some inconvenient truths

- NHS impact on the wider public sector
- Public services still need to focus on continuing delivery of 'the day job'
- Productivity needs exploring
- Paying for localism
- Risk of mismanaging the cuts
- Do the public and practitioners want what is being proposed?
- Some regions will be hit harder than others

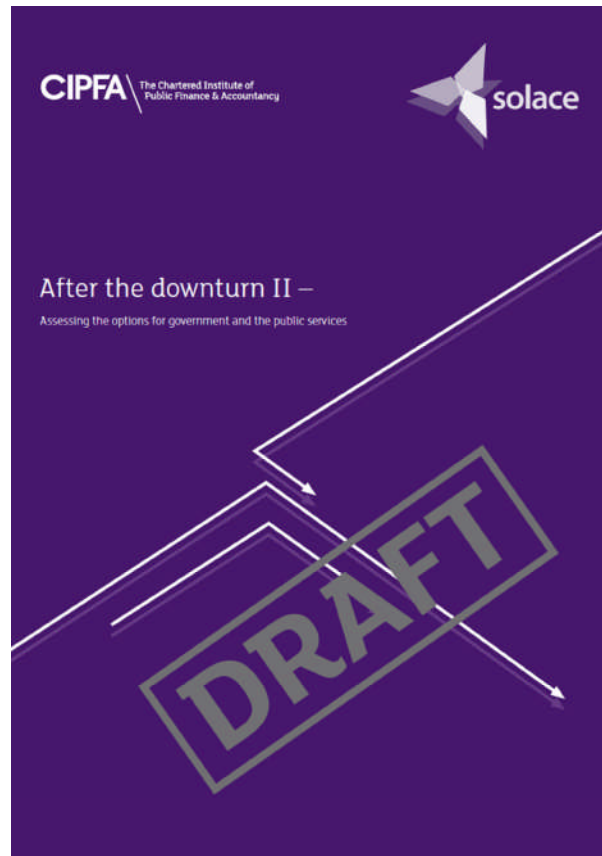
CIPFA's input: After the Downturn



CIPFA's input: Forecasting scenarios

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%

CIPFA's input: After the Downturn II – Beyond CSR



After the Downturn: three options

1. Redefining the relationship between the state and the individual
2. Delaying the public sector with more decisions taken locally and minimal oversight
3. Major initiative to maximise economies through collaboration between public bodies

Beyond CSR: revisiting the options

1 Redefining the relationship between the state and the individual

- Need to recognise that change of this magnitude does not happen overnight
- Need to assess and support level of preparedness in the not-for-profit sector for the 'Big Society'

Beyond CSR: revisiting the options

2 Significant delayering of the public sector with more decisions taken locally and minimal oversight

- Shutting public bodies creates big headlines but the savings can be smaller than the headline figure
- Jobs go on – if an organisation that delivers or regulates is shut down, who will take up the tasks they performed?

Beyond CSR: revisiting the options

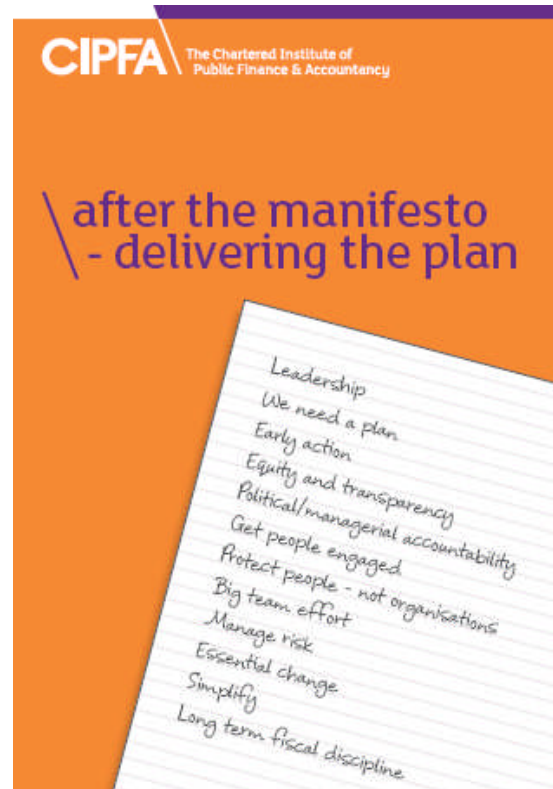
3 Major initiative to maximise economies by more effective collaboration between public bodies

- Shared services needs to go beyond back office to the way public sector interfaces with people
- Timescales are 'next five years' but it will take longer to see benefits

Beyond CSR: looking ahead

- Next six months will be defining period for rebalancing public finances
- Some families may be penalised in several ways – need a mechanism to support them
- Need to consider and apply 'the fairness test'

CIPFA's input: Delivering the Plan



Delivering the plan: What needs to happen now?

- 1 We need leadership
- 2 We need a plan
- 3 We need early action
- 4 We need transparency and equity
- 5 We need to be clear about political and managerial accountability
- 6 We need to get people engaged

Delivering the plan: What needs to happen now?

- 7 We need to protect people not services or organisations
- 8 We need a big team effort
- 9 We need to manage risk
- 10 We need essential change not change for change's sake
- 11 We need to simplify, not complicate
- 12 We need long term fiscal discipline

CIPFA's input: Leading in Hard Times



Leading in Hard Times: A different style of leadership

- 1 Engage and Communicate
- 2 Know where your costs are now
- 3 Understand where value lies
- 4 Understand funding scenarios
- 5 Identity options for change
- 6 Build a vision of how you will look
- 7 Create a balanced portfolio of change projects
- 8 Implement effective financial and risk management
- 9 Build the capability to change
- 10 Ensure that governance is fit for purpose

Spending Review framework

- Strengthen and re-position role of departmental CFO as enabler of informed decision making at Board level.....
- ...mandating CFO approval of new investments and consultation on material business decisions;
- ...aligned, long-term strategy for financial management across central government.....
- ...ensure FDs and their teams have the skills and experience to drive it;
- Increase the quality, *transparency* and accountability of financial information, through publishing HMT COINS database, Clear Line of Sight project, and publishing WGA.

CFOs: increasing personal challenges

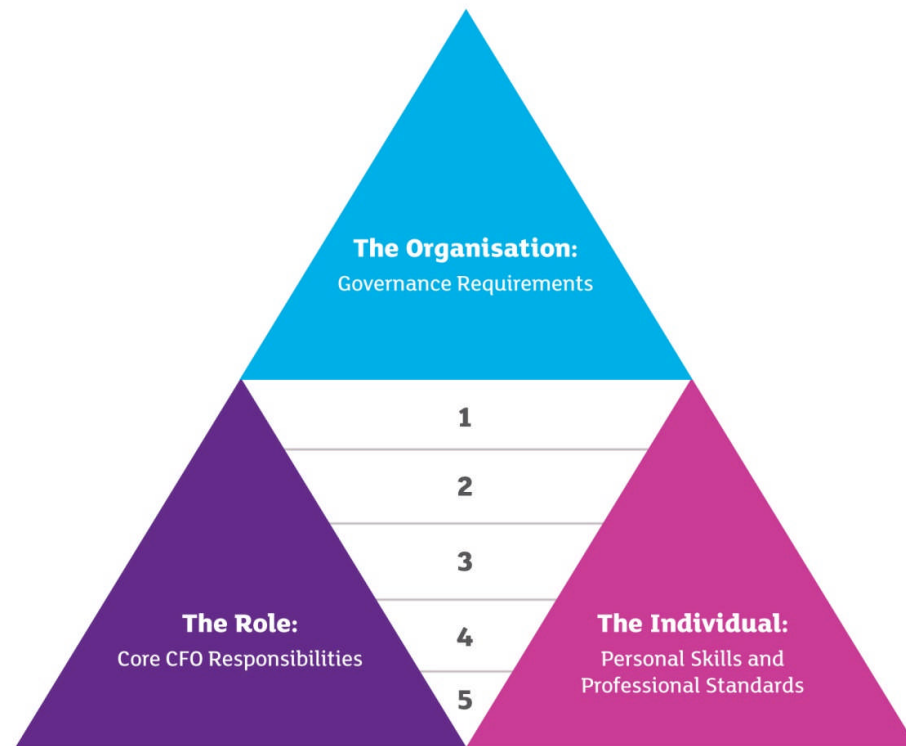
- Technical excellence taken as read
- Flatter structures - competition with other professional groups
- 'FD' role downgraded?
- Broader skill requirements
 - leadership
 - strategy
- How do you acquire these?
- Where do you get support from / how do you develop when you get there?

Statement on the role of the CFO

Five principles: A CFO must...

1. be a key member of the leadership team
2. be actively involved in material business decisions
3. lead the promotion and delivery of good financial management
4. direct a finance function that is resourced and fit for purpose
5. be professionally qualified and suitably experienced for the role.

Statement on the role of the CFO



Five principles
measured across
three dimensions:

1. The organisation
2. The CFO role
3. The individual

Conclusions

- CFOs will be key to delivering the reforms and the cuts
- Structures and accountabilities need to be right
- The transition period is vital
- Change management needs to be valued
- Pan-public sector change is vital

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\questions and discussion

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