Deloitte.

Turning the Tide.

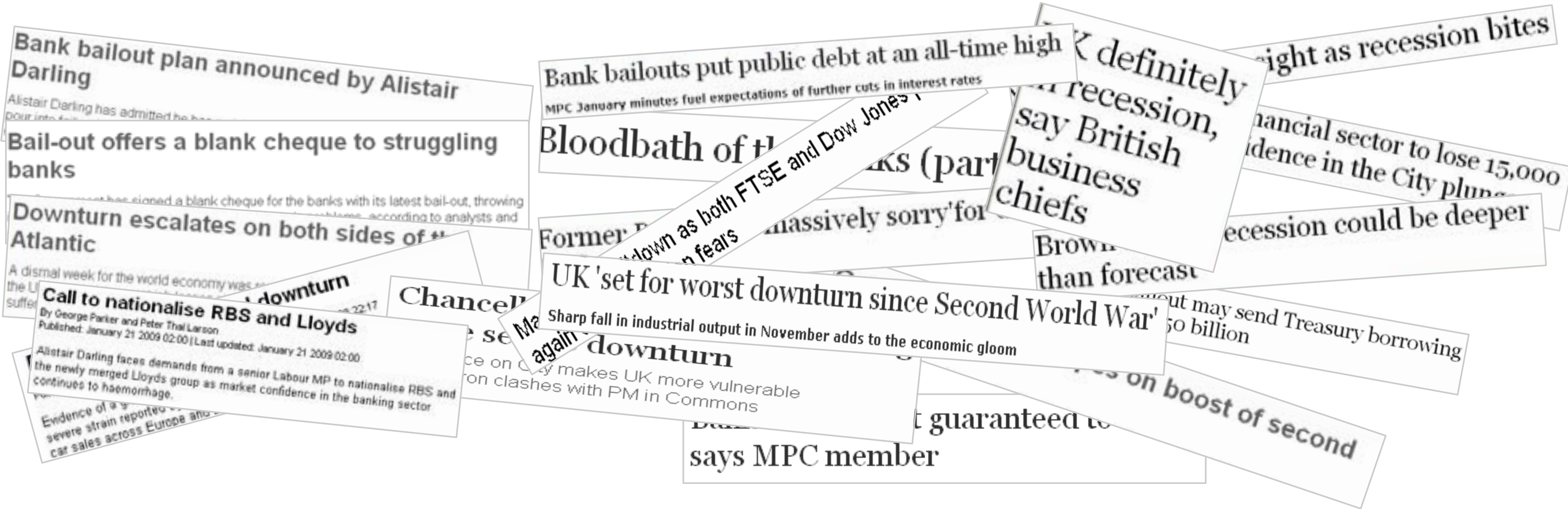
Managing uncertainty in public finances

Mike Turley - Public Sector Industry Leader
5th June 2009

Audit.Tax.Consulting.Corporate Finance.

Introduction: The economic downturn

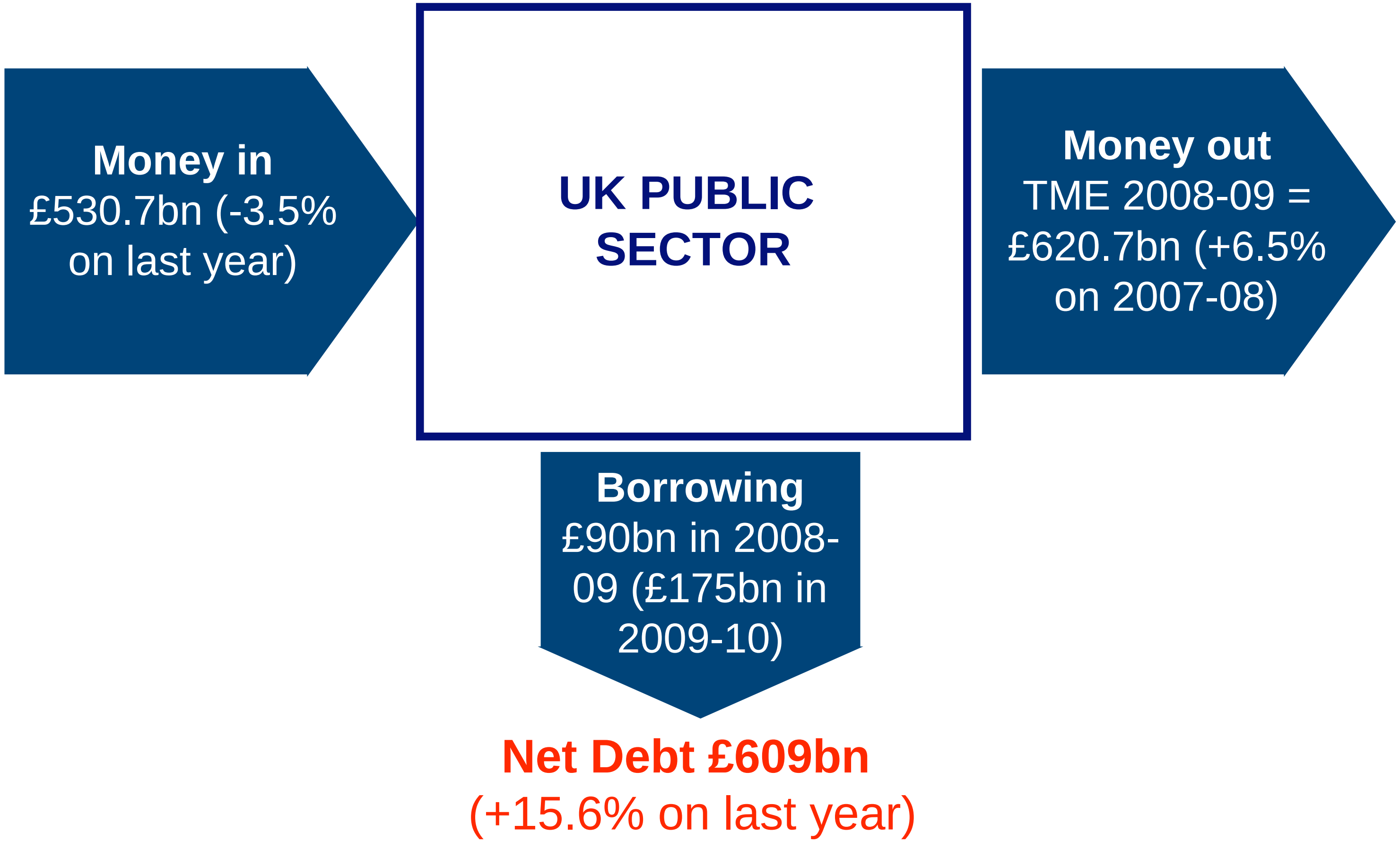
Media analysis has focused on the economy, employment and the banks.



But the impact of the downturn on public finances may be equally damaging.

The gathering storm around public finances

Fiscal policy and 10 years of public expenditure growth have led to:



Debt interest by 2013-14: £78bn – equal to defence and education budgets combined.

Specific threats across the delivery chain

Top down supply-side finance constraints

Receipts: Income to be less this year (£491bn) and next (£528bn) than 2008-09 (£530bn).

Devolved administrations: NIE faces a net £7m cut in 2010-11.

Local government: £10.8bn pa from chargeable services hit. Structural change plans could be hit by lack of investment funds.

Suppliers: Margins tighter, large contracts more infrequent.

Bottom up demand growth

Customers: volume of benefit claims and arrears may rise; demand for social services may increase.

Perennial cost pressures: PS pensions costs are £21bn - up by £2.7bn in 2005. Social care faces a number of complex challenges.

Change we know about; change we anticipate

The Sector will remain in a 'steady state' until the election. Then there will be:

- Personnel changes at political and official level.
- A Comprehensive Spending Review.
- A Strategic Defence Review.

In addition we may see:

- Targeted service cuts.
- Reforms to the public sector labour market and pensions.
- A review of major capital programmes, new institutions and consolidations

Each of these could impact on Northern Ireland!

The Public Sector in Northern Ireland

Rate of economic inactivity:	26.9% (UK average: 20.9%) NI has high full-time education participation rate.
Public spending / GDP:	62.7%, (UK wide: 43%)
People aged 19-59 with no qualifications:	20.4% (UK average:12.0%)

If the Treasury asks departments and devolved administrations to make cuts from next year, what does that mean for:

- **Northern Ireland's Public Sector?**
  (Employs 36% of total workforce against a UK average 21.3%)

- **Northern Ireland's communities?**
  (Annual expenditure per head is £9,557 compared to a UK average of: £7,675).

Public finances problems in a Northern Ireland context

- Recession may be less profound than in ROI / wider UK. But a longer recovery period may occur through less capacity for growth and displaced spending.

- The Executive has not faced the shocks suffered by London and Dublin. But now faces a shortfall in capital receipts and unplanned commitments.

- Aspects of the *Programme for Government* may now be unrealistic.

- If the Treasury introduces, for example a 5% pay cut, how could that impact large capital programmes?

That is where we are. How should we respond?

So we know that:

- Budgets cuts are likely after the election.
- Northern Ireland, with a large public sector, may be disproportionately affected.

Areas to consider in response:

Near term	Longer term
Balance statutory and customer service obligations & income uncertainty.	Behavioural change amongst customers ('Grey economy', fraud, debt).
Improve allocative efficiency & maximise asset value.	New capabilities required to 'manage down' business areas.
Manage demand for services amongst an unskilled population.	How to services in an equitable and sustainable way.
Review the financial health of delivery partners and exploit 'low risk' partner role.	Harnessing innovation to offset painful spending choices.
Immediate action to reduce costs.	Broaden out areas of collaborative working.

Deloitte.

Member of
Deloitte Touche Tohmatsu