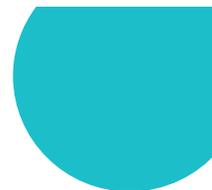


# PublicFinance

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By **Public Finance staff**

IPFA recently hosted a one-day summit for public sector CFOs, sponsored by Newton Europe, providing a forum for discussion about the fiscal challenges all public bodies currently face.

The meeting was held under the Chatham House rule, which keeps the identity and affiliation of speakers private. This report respects that convention.

## **Fiscal background**

Several speakers described the events leading up to today's financial climate. Delegates heard how the 2008 recession raised the UK's national deficit to 10% of national income in 2009/10 – its highest level since the Second World War. The rise came about primarily because national income had fallen sharply during the downturn.

Since then, spending as a proportion of GDP has returned to roughly where it was before the recession. "Back in 2010 it was assumed that the deficit would be closed by now," delegates at the summit were told. "It hasn't closed because the last half of the last parliament was characterised by very slow economic growth."

Looking forward, the Conservative government's plans are expected to lead to the lowest proportion of national income spent on public services since 1999, which was itself a low point by historic standards. "The chancellor is looking at state funding of about

This summer's CIPFA CFO summit focused on building long-term plans for sustainable public services

# SURVIVAL STRATEGIES

## A London borough planning for 2014-2016 presented councillors with **£100m** of options for a **£70m** budget gap

36% of national income,” the conference heard. “That will require some really, really tough cuts in spending both in the short and medium term.”

When spending is assessed per capita, the cuts appear still more severe because the UK’s population is growing in number as well as ageing on average, both of which drive up costs. “Very soon we’ll be in a place where half of all government spending goes on pensions and health,” the conference was told. “We are squeezing every other function of government back to leave space for a set of not necessarily high quality welfare services. Is that really the best use of taxpayer cash?”

Attendees were also warned that even very severe cuts cannot deliver the government’s goals in isolation: “Growth in the economy, improvements in productivity and the consequent impact on tax revenues are probably much more important for ending the deficit than anything else. Most countries that have

come out of deep fiscal problems have done so on the back of very strong international growth at around the same time.”

Whether the UK is actually suffering deep fiscal problems was also debated. Unlike Greece, the UK is not under significant external pressure to reduce its debt, which means the government may yet adjust its policies before the 2020 general election. Halfway through the last parliament, George Osborne chopped his fiscal targets due to unexpectedly slow growth.

“One of the things the Conservatives regret is a lack of emphasis on growth policies in 2010,” one speaker noted. “Now they are

thinking about growth in the longer term, hence investment in infrastructure, and the politics of Heathrow playing out.”

To date, transformational change of the kind needed to cope with drastically reduced budgets has been more evident in local than central government, with the Cabinet Office a notable laggard in delivering efficiencies, the conference heard.

Driving a substantial change in remit, culture or working practices is much more difficult than squeezing pay and headcount, one speaker noted. Budgetary pressures seldom lead to huge innovation or to people acting across prior boundaries, he said: “The natural human reaction is to hunker down and look after your own. Exceptions tend to come from service leaders on the ground with visions for how things should join up and who are capable of building those coalitions. It very rarely comes from top-down plans.”

### London borough view

At the coalface, local authorities and other service providers are building their various plans to deal with impending cuts. The summit heard from one CFO about how a London borough has built its medium-term financial strategy.

“It starts with what you want to achieve,” the CFO said. “Like most corporate plans it gives you a steer but it doesn’t answer questions about what you stop doing.”

This particular council plans for a 3-4 year horizon, aiming for bigger cost savings than are needed on paper. “Even if you don’t quite get there, it means you set off on the right path,” he said.

Planning for 2014 to 2016 presented councillors with £100m of options for what was then a £70m budget gap. The goals will need to be more ambitious for the 2016 to 2018 plan, where there are “significantly more risks” than in the current three-year cycle.

During this cycle the council has delivered half of its savings through outcomes-based budgeting, which means “investing less in those things that aren’t contributing so much to desired outcomes”. Internal efficiencies and cuts in support services accounted for about 40%, with the remainder arising from attempting a lean systems, right-first-time approach.



◀ With an ageing population, very soon half of all UK government spending will go on pensions and health



◀ The assumption that if a hospital is there it always will be is one of the challenges for health trusts and local authorities

England's *Five-Year Forward View*, in the run-up to which trusts were asked to provide their own five-year plans, she noted. "Ironically, in 2015/16 it's gone back to a single year plan and it's slightly unclear why," she added. "It's left to local organisations to try to join up planning and look forward."

Trusts within her region have been doing just that over the past year or so, establishing a collaboration process that sees chief executives within the area getting together once a month. "Hopefully this will be able to maintain momentum because otherwise services will not be sustainable," the CFO said.

One important consideration is the potential for cost-shunting, where a funding reduction in one area of the public sector leads to a consequent rise in costs faced by another. "If we

close an A&E, what impact would that have on the amount of demand going through other services, and the knock-on into elderly admissions and community care," she said. "I don't think we've cracked it, but at least we're having those conversations rather than people making decisions in their silos."

Another factor is the public's resistance to big changes in service delivery, she noted. "The assumption that if a hospital is there it will always be there is one of the most challenging things, really. We have the mandate to do it, but the freedom a local authority has to actually close a hospital is debateable."

Another speaker, from the social care sector, highlighted the difficulty of knowing which changes will actually deliver cost savings. "For some areas of investment there is quite limited evidence – or contradictory evidence – about where to put the money to make the shifts we need to make," he noted.

"To be sustainable, we need to develop completely new models," he added. "There are solutions but many of them require investment and time and one of my biggest concerns is that changing models and doing very different things is not necessarily going to align with the austerity timescales and the levels of cuts that we need to make."

The same speaker also highlighted the issues of complexity and fuzzily defined boundaries: "We can't solve the problems of social care just by changing social care. The way it interacts with housing, welfare, employment services, the voluntary sector and most importantly the NHS really matters. Unless we can get these to work together we will not be sustainable."

He concluded: "We must make sure we don't cut the very things that could contribute towards us being more sustainable." ●

**W**hen it comes to capital funding, the borough is relying on receipts for significantly more than half of its spending. "The days of big central government grants for capital schemes have gone," the CFO said, noting that risk management has become a real challenge. "This sometimes keeps me awake at night: £856m to be generated in receipts over the next four to five years."

### The healthcare challenge

The CFO summit also heard from experts working in health and care organisations.

The CFO of one hospital trust noted that despite the protected state of NHS funding, budgeting is still a significant challenge.

"Planning in the NHS has been, despite all best efforts, an annual process," she said. "We have annual commissioning contracts, annual budgets, a tariff that's updated more or less annually, and within that we have very limited ability to determine any of our own prices or the amount of services we provide."

The overall NHS structure is "complicated and messy", she added, and doesn't lend itself to integrated financial planning. "It would be helpful to move to multi-year commissioning contracts," she said. "We spend so much time agreeing those each year. We renegotiate quality targets every year. They take hours and hours and it's debatable how much difference they actually make."

There have been moves to take a longer view, notably with NHS