

PRE-BUDGET REPORT 2009. ON YOUR MARKS - GET SET - CUT!



“Alistair Darling’s Pre-Budget Report has placed the political parties under starter’s orders in the race to the General Election. But with economic contraction this year now heading for - 4.75%, the budget deficit revised upwards to £178 billion and growth next year forecast at a modest 1.5%, the eventual election victor faces some eye watering choices.”

Graham Kean - Partner, Head of Public

Today, Mr Darling provided few specifics around the impact on spending cuts per department - but what we can say is that the impact will be a seismic shift in comparison to the previous Gershon inspired regime of 2.5% annual efficiency savings - and it needs to be so. The new delivery models emerging over the next 12 months will - and must - be radically different; breaking down departmental barriers created over decades, if they are to have any real impact.

Total Place has crystallised economic development thinking that has been around for over a decade. Its agenda of simplified budgets and co-ordinated delivery mechanisms will become the norm. Key to success will be local stakeholders making it work. Local Government is just as important as Central Government at times like these, as it can move more quickly and make a real difference to people’s lives. So, how can we ensure that each local

community is co-ordinating with and benefiting from wider collaboration on a regional or national basis? Total Place needs to gather pace.

We need to be aware of the impact of ‘unintended consequences’. Radical reductions in capital programmes could bring longer term damage to our national competitiveness and seriously impact on the return to economic growth trailed for 2010. To protect the priority programmes in education and health, very deep cuts will be required elsewhere. As the second biggest cost after people; built assets have a critical role to play in ensuring better public services are delivered more efficiently, unlocking value and delivering opportunity.

The publication on Monday of “Putting the Frontline First: Smarter Government” has highlighted some of the overarching methodologies that the Government will adopt but again contains little detail on the savings demanded from each department. The key implications from the PBR and Liam Byrne’s report for each of the major public service and its built assets are:

Central Government

The Government announced on Monday its intent to merge or abolish 123 government arms length bodies with a view to saving a further £500 million a year. This is less than 10% of the total number of government departments and non-departmental public bodies. Rationalisation of property amongst departmental arms length body families combined



with the intent of moving a further 32,000 remaining civil service posts out of London - offers a major opportunity to unlock value from the property portfolio and implement more efficient 'New Ways of Working'.

The Operational Efficiency Programme is still looking for around a 30% reduction in central government office accommodation through better space occupancy (from 14.5 to 10 square metres or better per full time employee). This would reduce running costs for this part of the estate by approximately £1 billion a year. There is room for other departments to follow the DCSF's lead that has cut London HQ costs by £10 million per annum.

Local Government

The stated intent of breaking down budgetary silos will give real impetus to the implementation of Total Place. If tackled effectively this has real potential to drive out inefficiencies whilst improving local services.

A fresh look at strategic asset management of the estate can deliver significant operational savings as well as generating capital receipts.

Councils should also take an in-depth look at their current property maintenance provisions, as smart procurement and streamlined delivery can deliver savings. Asset led change can deliver efficiencies and act as a catalyst for wider organisational transformation using new ways of working.

Health

Despite major increases in resources, the NHS now has to deliver efficiency. This means both a clinical process review on productivity and a clearer match to its estate needs. By using best practice activity modelling, reviewing facilities management operational costs and reducing floor area of delivery, savings can and will be made.

To put this into perspective, the surplus NHS Property (out of use or functionally inactive used buildings) broadly equates to the entire area footprint of Tesco's UK business at approximately three million square metres.

Housing

Tackling worklessness is fundamental to the reduction and prevention of repossessions. The HCA's focus on apprenticeships and skills through its Academy must come to the fore.

Support for tackling fuel poverty continues and will be welcomed by low income families. The new boiler scrappage scheme and tax free selling of energy back to the grid sound like the types of initiative that will pave the way to consumer acceptance of greening measures. This is no bad thing if we are to achieve residential market recovery prior to 2016!

No change to VAT for residential refurbishment is a huge missed opportunity to soften the blow of redirected budgets within the HCA from housing improvement programmes.

At a domestic level, this could have been a major coup. No continuation of the stamp duty holiday up to £175,000 is a false economy - we've not seen the shift in the housing market to justify this - if anything it should have been increased to £250,000 indefinitely.

Regeneration

Greater flexibility in the way local authorities can use their budgets will create a more efficient use of resource and enable prioritisation of funds. Even more intensive collaboration between the public and private sectors means that the performance of the public sector will need to be benchmarked against the private sector; this should help to create a more focused commercial model.

There is the prospect of much smarter use of public assets to help unlock schemes and create different business models with the public sector sharing in both risk and reward.

Education

The Chancellor presented a PBR which was short on future shaping of what the key departments spend. For education, this meant a commitment to current spending plans to 2011. How this is achieved in a context of declining tax revenues remains to be seen. The speech also included a further drive for more efficiency in delivery of major projects and front line services.

However, a commitment was made to greater skills training opportunities for unemployed under 24 year olds by shortening the period before training kicks in, to 6 months from 12. How the programmes will be achieved is not yet clear.

There was actually more reference in Darling's PBR speech to the problems that were inherited a decade ago, than the achievements to date or initiatives for the future. This will clearly be one of the key battlegrounds in the run up to the General Election.

To discuss the implication of the Pre-Budget Report on your organisation, please contact:

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