

A NEW WAY FORWARD OR THE SAME WITH LESS?

“The Spending Review signals the start of the Government’s journey to remove the structural deficit by the financial year 2015-16. Cuts have been agreed with departments, with projected levels of capital expenditure over the Spending Review period. One thing is clear; construction, property and facilities management are still costing too much in the public sector. Now is the time to focus on intelligent cost reduction measures to deliver the Chancellor’s targeted savings.”

The Chancellor, George Osborne, set himself the target of reducing the ‘structural’ deficit to zero by 2015. It is estimated that £83 billion is needed in spending cuts or taxes to achieve this aim and the Spending Review marks a major step on this journey.

We can now see where the Government’s priorities lie. High-profile spending commitments dominated the headlines. A surprising amount of detail was presented within the report, however the real detail will come later once departments have been able to properly reprioritise their programmes.

Whilst the detail will take time to emerge, that should not stop us from responding to the fact that the public sector must deliver more for less across property, infrastructure, transport, construction and facilities management. Addressing this is one of the more intelligent ways to reduce costs overall.

More than ever before, local, regional and national government need to show joined-up thinking and a united approach, as well as innovation in their engagement with the private sector in order to unlock value and enable opportunity.

Here, we consider the impact of the Spending Review and suggest possible solutions to chart a new way forward.

Health

Health is the number one priority for the Coalition and whilst there is an annual increase in NHS funding this doesn’t amount to much of a ‘real terms’ increase as demographics, drugs and operational expenditure costs will demand the NHS to deliver efficiencies over the next three years, estimated by the Chancellor himself to be more than £20 billion. The review sends health in England up from £98.5 billion this year and £101.5 billion next year to reach £109.8 billion by 2014/15. When you factor in inflation, this could potentially lead to a reduction in real terms, suggesting the need for prioritisation of spend within the NHS and a reduction in the cost base.

Significantly as shadow Health Minister, Andrew Lansley in his spring conference speech noted the adverse impact of working from Victorian buildings. With significant total backlog maintenance costs running to £4 billion and buildings that are clearly not fit for purpose, the NHS needs help over this three year period in capital funding terms. The review allows for a handful of new hospitals like St Helier and West Cumberland but overall capital funding will reduce from £5.1 billion to £4.6 billion by 2014.



Many will accept that the need for reform is long-overdue, with health spending having doubled in the past ten years and the anticipated productivity gains not being realised. Now is the time to deliver better health outcomes, more efficiently.

There is significant opportunity. In a recent EC Harris report into the use and management of the NHS estate assets and facilities, we found that by undertaking a number of strategic and linked initiatives, the NHS could generate savings that could lead to capital receipts of up to £2.5 billion and a revenue saving of approximately £1.4 billion of its estate operations - whilst at the same time transforming health services.

The Chancellor also announced funding for GP commissioning groups. However, there is real danger that the timetable to achieve Royal Assent for the health bill to enable the GP commissioning reform could lead to uncertainty within the primary care side of the NHS for nine months or more. This may well impact on the ability to achieve the efficiency targets in this financial year.

Local Government and Emergency Services

As expected, Local Government will bear the brunt of the cuts with revenue budget cuts well in excess of the anticipated 25%, a freeze on council tax rises, and the pre-announced abolition of funding to RDA and I&E bodies politically offset (but by no means attempting to match the losses) by Tax Increment Financing.

At first glance, the cuts may appear less severe in headline percentage terms than previously feared, being an annual target of 7.1% pa for four years. But with population growth, increased council responsibilities, the council tax freeze, and potential formula redistribution between local authorities all taken into account, as well as the impact of four years of inflation and further freedoms for schools on their own budgets, these levels will be challenging to meet.

The Spending Review must herald the end of the phoney war on cutbacks and the start of a concerted drive for practical and deliverable efficiencies which can protect frontline services and still enable local economic growth. Councils need to take fundamental action now.

Given that property (in all its elements) represents approximately 20% of revenue expenditure and the capital estate offers a comparatively painless source of efficiency gains, local authorities should consider intelligent built-asset solutions. These can generate savings well in excess of the target levels and often act as an enabler for wider service efficiencies.

We expect to see a real focus on asset led transformation to generate savings and act as a catalyst for wider change. There also needs to be a rapid move to greater co-operation between neighbours to drive efficiencies from the assets themselves, the team structures which manage them, and the procurement of contractors who service them.

The emergency services have been set their own targets for efficiency with the challenge to focus on back office and administrative targets. Their estates and the associated property services offer an excellent opportunity to start this process.

Housing and regeneration

The Spending Review has sought to force major reform in the affordable housing sector. Along with the TSA being one of the logs on the 'bonfire' of the quangos, the NAHP has been slashed to £4.4 billion, representing nearly half of that previously.

However funding is divided between HCA programmes, it must now be used in a more flexible and creative way to maximise its impact. The creation of an investment fund that could be used across a number of potential housing and regeneration sites, with the potential to create self financing business plans, is a compelling possibility for new build.

New and radical delivery models can result with further new freedoms. Recent EC Harris research, entitled Unlocking Capacity from the Affordable Housing Sector in England, identified significant capacity in existing affordable housing stock and provided a high level route map to unlocking up to £125 billion extra capacity from the sector for potential reinvestment. This begins to be possible if business models, adopted by the existing providers, are re-engineered and incentivised to act more commercially; The Chancellor has commenced this journey with his approach to charging intermediate rents and reforms to security of tenure on new affordable housing.

The expected confirmation to pass legislation to use growth in future business rates to create upfront investment funds through the implementation of a Tax Increment Financing scheme is welcomed. This will undoubtedly complement the localism agenda and create one of the key funding mechanisms available to the newly formed Local Enterprise Partnerships.

The Chancellor confirmed the £1 billion per annum regional growth fund, which will be focused on supporting balanced regional growth across England. An additional £0.5 billion is promised for year three, which is to be welcomed, but could this have been brought forward?

Education

Education has returned as a political priority for investment, with the Government recognising that the recovery will require a strong skills-based economy. The Chancellor's announced real-term increases in funding for schools in each of the next four years - the budget rising from £35 billion to £39 billion spend (including inflation rises).

However, only £15.8 billion will be made available for 600 schools to be refurbished or rebuilt and on repairs to the estate, this represents a real terms cut - the biggest in the announcement - of 60% on the original budget.

The report implied a clear direction for schools investment against the three headings of: condition; basic need; new/refurbished schools (focused on Free Schools and Academies) but a great deal is still unclear - for example, how is the real term growth really going to be achieved?

Beyond the two key areas for Schools and Early Years, there are developments which will require support in Higher Education. This is an area where there is a need for greater efficiency in the use and operation of the estate.

Finally, there is mention but no detail, regarding the changes in the delivery of provision for special needs - does this align with the stated objective to halt Special School closures and reverse the trend for 'inclusion'? There is a shortage of Special Education Needs provision and many new providers may enter the market.

The Spending Review represents a challenge for education and the professionals supporting it. It's a serious task to completely re-think how we deliver education environments and make them work. We need to save money from overburdened overheads but equally we must recognise the importance of high quality advice to enable us to get it right first time. The upcoming generation of children in our schools only get one shot at their education.

Central government

The Chancellor announced a 34 per cent cut in administration budgets across the whole of Whitehall and its Arms Length Bodies, saving a planned £5.9 billion a year by 2014-15. Identifying and generating savings from property and facilities management will be a priority.

The announcement that part of the Cabinet Office will be moving into the same premises as the Treasury, highlights the importance of workplace transformation projects such as the Department for Education's Sanctuary Buildings and the BIS property rationalisation. Both of these demonstrated that major savings and productivity improvements can be made. How many other departments and Non-Departmental Public Bodies are prepared to follow suit?

We must now expect greater use of the Buying Solutions frameworks as opposed to the Official Journal of the European Union (OJEU), across pan-Whitehall facilities management procurement, as a more efficient and effective way to generate efficiencies.

Transportation

Transportation has benefited from the Chancellor's third principle of the Spending Review, namely growth. The review has protected high value maintenance and investment.

Key rail and highways investments have been ring fenced. Crossrail, LUL line upgrades and capital maintenance, the congestion easing programmes on the M62 and M25, and the Mersey Gateway Bridge are examples of a reasoned approach to delivering the longer term transportation strategy. In addition, the £10 billion allocated to investment in high value road, regional and local transport schemes, is to be commended.

The raising of the regulated fares cap to RPI plus 3% was largely expected, with the consumer sharing some of the pain, for the improvement in rolling stock.

But, and it's a big but, the devil will be in the detail. Until Philip Hammond delivers his detailed review next week there will be continued uncertainty, particularly around departmental cuts. What cannot be ignored is that the departmental transport budget will fall in real terms from £5.1 billion to £4.4 billion in 2014/15 - a fall of 21% and capital expenditure falling from £7.7 billion to £7.5 billion - a drop of 11% in real growth. However, the investment will still be higher than 2005/6 levels. It is likely that programmes may be delayed, with the focus for investment on those programmes that deliver the fastest and most beneficial returns to society and the economy.

The Spending Review makes frequent reference to the need for high value and efficiency, where capital spending on the wider economy can be maximised. What will be reaffirmed by the Secretary of State for Transport will be a drive for efficiency and eradication of waste. This approach can deliver the savings without significant scope reduction - driving 'more for less'.

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