DOING BETTER WITH LESS: BRIDGING THE LOOMING FUNDING GAP

While there has been much political uncertainty regarding the devolved institutions and the business of government in recent weeks, there is inevitability about spending cuts. The next spending review will be the toughest for at least 20 years whatever the outcome of the general election or the way forward for devolved government. Westminster will have to deal with a massive fiscal deficit and a Northern Ireland administration will have to cope with its share of the pain

If "Doing Better with Less" is the challenge what can the public sector do to generate extra revenue to mitigate the effect of the cuts and potential damage to public services?

Context

In September 2009, the joint Chief Executives' Forum/PricewaterhouseCoopers (CEF/PwC) paper on the challenges facing the public sector acknowledged the inevitability of significant cuts over the next four years.

PwC's own publications, *Dealing with Debt* and *Dealing with (even more) Debt*, published in 2009 presented a number of scenarios that might help bridge the funding gap. However, the options for intervention on a significant scale are limited and are unlikely to be sufficient to redress the economic balance. No single intervention will be enough and it is likely that a future Westminster government of whatever political hue will adopt a mix of tax increases, both direct and indirect, together with a drive to find cash releasing efficiencies.

There is no consensus amongst economists and observers as to the likely magnitude of public expenditure reductions; these will depend upon the fiscal choices that government will make between tax increases and spending cuts and the extent to which spending associated with key policies will be protected.

Nonetheless, it is generally acknowledged that nil growth in real public expenditure could – assuming some element of ring-fencing in, say, health – result in departmental public spending cuts in the range 15% - 20%. Even at the lower end of this scale, such a reduction in public expenditure could not be absorbed without impacting significantly on frontline service delivery, at least in the short to medium term.

The third CEF/PwC round table in November 2009 considered these challenges in the context of where additional public sector revenue could be generated to maintain the integrity of the *Programme for Government* and mitigate otherwise inevitable cuts in services.

Having your cake and eating it

The Northern Ireland public sector has an asset base mostly in property, valued at around £40 billion. The release and leaseback of assets, as conceived in the *Workplace 2010* initiative, was intended to raise £1.5 billion to fund the Northern Ireland Executive's capital investment strategy and is the most recent example of a strategy to leverage the asset base.

However, the recession and parallel collapse of the property market showed, inter alia, that such initiatives, whether in partnership with the private sector or wholly within government, are at the mercy of market forces.

Nevertheless, the problems of Workplace 2010 aside, the notion that revenue derived from the imaginative disposal of assets can fund much needed economic and social programmes that are central to the *Programme for Government* is still sound.

Still, the benefit of asset disposal can only be enjoyed once. The principle that the proceeds of asset disposal are reinvested in strategic, value-adding programmes and projects is an important one and one that should be underpinned by clear policy objectives and guidelines. If revenues gained from asset disposal were used to subsidise existing services, as an alternative to belt-tightening or taxation, the opportunity costs would be borne by succeeding generations. If such unhappy outcomes are to be avoided, the inevitability of significant cuts must be addressed along with the need for more imaginative solutions to protect services and ensure effective and efficient service delivery.

Cutting back programmes to match reducing resources may be inevitable in the short term but in the medium to long term, efforts should be concentrated on the desired economic and social outcomes and the alternative strategies and sources of funding that could be brought to bear.

Innovations in achieving policy outcomes

In March 2009 the successful Northern Ireland Housing Co-Ownership Scheme (NIHCS) stopped accepting new applications because the demand for new homes far exceeded the funding available. Providing social housing for those on low incomes is a priority outcome under the New Housing Agenda announced in 2008. However, by September 2009 the situation had been turned around.

By recognising and using its substantial asset base in housing as security, NICHS, advised by PwC, secured a further £48m in funding from Bank of Ireland and Barclays Bank. This ended uncertainty for many first time buyers, with the banks showing their support for a strategic and innovative approach to the problem in a difficult market.

The same approach is already recognised as potentially a means to achieving the New Housing Agenda target of 5,250 social homes by 2011. Around 30% of new social housing is funded by the sale of social housing stock but that income stream has almost wholly dried up in the last two years. With around one third of expected income now absent, the Best review[1] is exploring new ways of achieving desired social housing outcomes and this should include leveraging the considerable housing assets held by the Northern Ireland Housing Executive and registered housing associations.

Such collaboration can also drive innovation in our public services and how we deliver them. For example, the traditional model of elderly care, mainly through private sector care homes, is both costly to individuals and to social services. Further, as the elderly population rises and medical intervention prolongs life, although not necessarily health, this problem may become a crisis. However, a housing model which would include social housing provision and appropriate tax allowances could allow the elderly to retain equity in flexible and affordable accommodation while ensuring they receive appropriate care while remaining within the community. Such a model of public/private collaboration in the development and management of care 'communities' already exists in the USA and when measured in terms of cost-effectiveness for residents, care providers and the state, it promises both value and economies of scale.

These examples illustrate the kind of new collaborative frameworks being developed between the public and private sectors. These sorts of collaborations have the potential to provide considerable injections of funds and achieve desirable social and economic outcomes: they are a means of achieving specific policy outcomes; they help bolster the construction industry; and via a cash multiplier, they feed through to the local economy. And the asset remains in public ownership with a public sector landlord while being leveraged to sustain programmes and provide a return on investment for lenders.

The same approach to creative revenue sharing schemes can provide revenue income by thinking of public sector assets as commercial opportunities to attract investors in collaborative ventures where the benefits can be sustained over time. This is especially true where infrastructure investment is

[1] The Commission on the Future for Housing in Northern Ireland, chaired by Lord Richard Best OBE

under pressure, such as the development of transport hubs which will attract commercial development and help fund the transport investment.

Taken as part of a wider transport strategy and integrated into local inward investment programmes such as council-led Accelerated Development Zones, there are real opportunities for collaborative investment to produce long term revenue streams that benefit both the public and private sectors and ultimately the citizen. Elsewhere the Strategic Investment Board in conjunction with PwC have been working on two pilots with the Forest Service of Northern Ireland and the Agri-Food & Biosciences Institute (AFBI) to explore ways to generate additional revenues from their asset base.

Time and tide…

The degree to which the wider public sector will benefit from the types of collaboration set out above will depend on the degree to which the sector is willing to embrace more commercial and flexible approaches to managing state assets and funding public services in order to achieve social and economic outcomes that politicians wish to see brought about.

Sweating public assets and alerting decision makers to the potential of other new ways of thinking about how to mitigate the worst effects of putative cuts in public expenditure in the coming years must begin now if constructive debate can take place and a managed approach is to be developed.

Innovation through collaboration

Government is often criticised for its seeming inability to provide a coherent approach to policy making and provide a range of complementary services. There is a considerable volume of research that points to the ways in which departments, NDPBs and the private sector operate in isolation from each other in pursuing separate policy objectives, often in response to the same identified areas of need.

The scale of public expenditure cuts in prospect will demand new thinking as to how scarce resources can be best used while seeking to mitigate cuts to front-line services. It is generally accepted that cuts of the order of 5% or less can be managed through scaling back or reallocating resources; but cuts in the region of 15% or more would involve major policy decisions and rethinking and, possibly, redesigning the ways in which services are organised and delivered.

Many front-line services by their nature are delivered locally and it is at the local level that the best examples and opportunities for collaboration exist. The 13 *Total Place* pilots currently underway in Great Britain and lead by local authorities aim to bring together those agencies of central and local government and other agencies operating within one area to create service transformations that can improve the experience of local residents and deliver better value for the total amount of public funding in the area.

Total Place relies on what is essentially a two stranded approach. The first maps the flow of money through a place and makes links between services to identify areas where new, more collaborative delivery options might be developed to optimise the total funding available. The second strand addresses the cultural challenges of collaboration. The 'Total Place Initiative' depends on the notion of meaningful collaboration between agencies, on finding ways to use the public asset base to generate private sector investment, and on engaging the third sector to help build and develop a thriving social economy.

Where there's a will…

The burden to innovate, to constantly question how services are funded and delivered in this new age of austerity does not lie with central or local government or within sectors. It demands a holistic approach and with it a paradigm shift in thinking. As with *Total Place* the greatest challenge is perhaps cultural and ideological.

There could be merit in following the Republic of Ireland's approach and establishing a review similar to that undertaken by the *Special Group on Public Service Numbers and Expenditure Programmes* (the McCarthy Report, more commonly referred to as An Bord Snip Nua) headed by the economist Colm McCarthy.

However, if a similar approach were to be adopted here there may be only a brief window of opportunity between the budget following the General Election and the next comprehensive spending review.

Conclusion

This paper has presented a glimpse of the potential for collaborative interventions which can open up new sources of revenue and commercialisation for the public sector to deliver on the Executive's economic and social aims.

It acknowledges that the likely magnitude of cuts may be such as to call into question the sustainability of historic levels and models of service delivery across the departments of government. Consequently, radical new strategies of service provision and asset leverage may be needed. These will require a cohesive approach to policy making across government and a co-ordinated strategy to explore and exploit new fund-raising methods.

This paper also acknowledges that strong political leadership and cross-party support will be required to drive through the sort of changes that are likely to be required. In summary, the current crisis in public finances will provide the impetus for new thinking on how services are funded and delivered which will see us through the hard times

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