



**Fundamental Spending Review**

# **Phase 1 Summary Report**

**28th February 2009**

## Document control sheet

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## Contents

1	Executive Summary.....	4
1.1	Findings .....	4
1.2	Key Themes.....	4
1.3	Organisational Challenges .....	4
1.4	Summary .....	5
2	Introduction & Methodology.....	6
2.1	Background.....	6
2.2	Methodology .....	6
2.3	Outputs .....	7
2.4	Summary Opportunity Reports .....	8
3	Content and Purpose of Report.....	9
3.1	Introduction .....	9
3.2	Opportunities Identified.....	9
4	Key Themes and Trends identified.....	13
4.1	Business Planning .....	13
4.2	Budget Planning and Monitoring .....	13
4.3	Value for Money and Performance Indicators .....	13
4.4	Duplication of Support Functions.....	14
4.5	Departmental Links and Relationships with the Centre.....	14
4.6	SAP.....	14
4.7	Property .....	14
4.8	Recruitment and Retention .....	15
4.9	Procurement .....	15
4.10	Financial management .....	15
4.11	Management of funds, grants and subsidies.....	16
4.12	Process optimisation, service alignment and delivery models .....	16
5	Organisational Challenges .....	17
5.1	Areas for Improvement .....	17
6	Organisational Changes .....	19
6.1	From Paper Report to Real World Implementation .....	19
7	Summary and conclusion .....	20
8	Next Steps .....	21
8.1	Phase 2 Methodology .....	21
8.2	Delivery Plan.....	21

## 1 Executive Summary

This report presents the overarching findings from Phase 1 of the Fundamental Spending Review undertaken in the States of Guernsey over the period 5<sup>th</sup> January to 18<sup>th</sup> February. The Review covers all activity within the States that involves the expenditure of public funds and is a distillation of 18 individual reports that have been produced and reviewed with individual departments and functions across the organisation.

The purpose of Phase 1 is to undertake a high level analysis to identify areas that show the potential for efficiency opportunities which will then be the subject of further investigation in Phase 2. Phase 1 involves Tribal Helm liaising with key officials within each States of Guernsey department and building up our understanding of both specific departmental and common cross-cutting issues. This has allowed us to identify areas where further investigation is required, and facilitate the planning and prioritising of the programme of Reviews in Phase 2.

### 1.1 Findings

Phase 1 of the Review identified a total of 298 Summary Opportunity Reports (SORs) across the organisation. To effectively manage the workload in Phase 2 these SORs have been filtered and grouped into key areas for further investigation. The result of this filtering activity has produced 14 consolidated work packages from 146 cross cutting SORs and 152 department specific SORs for further investigation.

### 1.2 Key Themes

A number of key themes in terms of areas for improvement have emerged from the investigation and will form the focus for Phase 2 activity.

These key themes are;

- Business planning
- Budget planning and monitoring
- Value for money and performance indicators
- Duplication of support functions
- Departmental links, and relationships with the centre
- SAP
- Property
- Recruitment and retention
- Procurement
- Financial management
- Management of funds, grants and subsidies
- Process optimisation, service alignment and delivery models

### 1.3 Organisational Challenges

The key themes can, in most cases, be seen to be symptoms of weaknesses in the broader operational framework of the States of Guernsey. The scale of the operational weaknesses has meant that they have over time become embedded within the culture of the States, and as such form the basis of expectations and consensus view.

### **1.3.1 Governance**

The challenges the organisation face centre around the fact that governance in the States is neither directed, nor controlled as a single corporate entity. The result is that operational best practice is not captured or adopted by all departments, and economies of scale are forfeited by local actions. This has a material impact on how efficiently the States of Guernsey's resources are used.

### **1.3.2 Budgetary Control and Management**

Historically the resources available to the States to fund the delivery of its services have exceeded the funds needed to efficiently deliver those services. Requests for resources were met, revenue overspends did not generally occur and a financially profligate culture was able to flourish.

Operating within this funding environment has meant departments have, in many instances, been able to provide 'gold plated' services or indeed services where there is no clear rationale at all for government intervention. There has also been no imperative to deliver services efficiently.

### **1.3.3 Changing Economic Environment**

The introduction of the Zero-10 tax regime coupled with the onset of the economic downturn will see a material reduction in tax revenue income for the States. The States is currently operating at a deficit and is being sustained only by the depletion of reserves. These reserves will be exhausted by 2011. A very real and immovable financial imperative now exists.

## **1.4 Summary**

The successful implementation of the opportunities identified by this review, converting them into real world outcomes which benefit the economic well being of the people of Guernsey, is largely dependant upon appropriate decisions and actions being taken by the States. The large number of opportunities identified reflects the base from which the States is starting and thus the scale of the challenge faced. A challenge than can be met only with the firm commitment of the States to subscribe to the actions and controls necessary to facilitate the successful implementation of the opportunities identified in this report.

The implementation of a Fundamental Spending Review is applauded and is the first step in a journey towards financial prudence. It offers a massive opportunity for the States to deliver both operational efficiencies and real parity that will enable budgets to balance in future years.

## 2 Introduction & Methodology

### 2.1 Background

In the 2008 Budget Report (Billet d'Etat XXIII, December 2007) the States of Guernsey Treasury & Resources Department announced plans for Fundamental Spending Reviews to be commenced during 2008-09. These Reviews have arisen as a result of the continuing controls imposed on public sector spending and the loss of income through taxation reform<sup>1</sup>. The Reviews are to be undertaken based on a framework developed in Phase 1 of the project by previous consultants.

The key objectives of the Reviews are to:

- ensure that departmental spending plans provide for the most efficient and effective delivery of services
- ensure that departmental services are prioritised effectively and broadly in accordance with the aspirations of the Government Business Plan
- ensure that departments are only engaged in delivering essential services that cannot or should not be provided by the private sector
- embed the mindset and approach of the spending reviews into a cyclical process for the States of Guernsey with a view to ensuring the future legacy

The identification of efficiency opportunities within department and cross cutting themes in the States of Guernsey does not aim to cut front-line services. Instead it is about:

- redirecting resources to priority areas
- releasing capacity for front-line services
- improving efficiency and realising savings for re-investment
- improving performance
- providing a rigorous and effective framework through the Reviews process/framework to achieve the improvements by way of an ongoing plan and embedding the approach into the planning and budgeting cycle
- developing a culture of continuous improvement

The Reviews will enable budgets to be realigned to support the efficient delivery of essential services across the States. It will also provide improved information for decision making.

Above all, these Reviews are to be perceived as a necessary corporate measure that will help ensure the future economic well being of the States of Guernsey.

### 2.2 Methodology

The Review can be grouped into three distinct phases:

- Scoping: Mobilisation
- Phase 1: High Level Review
- Phase 2: Fundamental Spending Reviews

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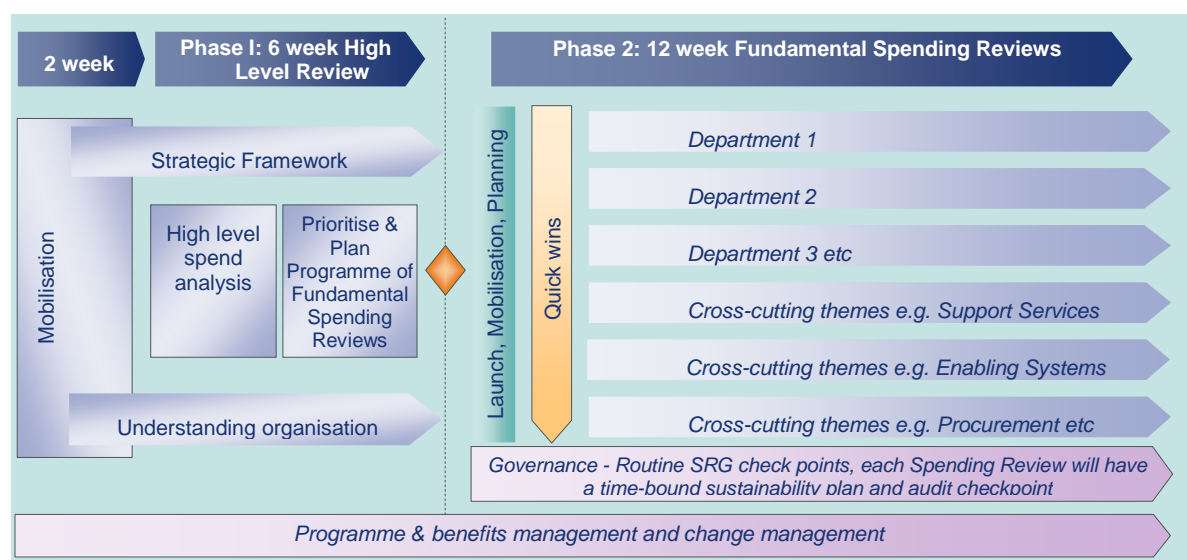
<sup>1</sup> With effect 1 January 2008, the standard rate of income tax on company profits is 0%, with only a limited number of specific banking activities being taxed at 10%. This is what is referred to as the "zero-10" regime.

The purpose of Phase 1 is to undertake a high level analysis to identify areas that show the potential for efficiency opportunities which will then be the subject of further investigation in Phase 2. Phase 1 involves Tribal Helm liaising with key officials within each States of Guernsey department and building up our understanding of both specific departmental and common cross-cutting issues. This will allow us to identify areas where further investigation is required, and facilitate the planning and prioritising of the programme of Reviews in Phase 2.

The Review will entail a high level spend analysis, supported by detailed interrogation of SAP by Spikes Cavell, to identify potential efficiency opportunities across all Departments (Phase 1); this will be followed by detailed spend analysis to explore prioritised opportunities in more detail (Phase 2).

The Spikes Cavell Observatory is a multi-functional suite of web based software tools which will assist the organisation to achieve a fundamental understanding of the nature and extent of their spend on third party goods & services. Using information provided from SAP, Spikes Cavell cleanse and categorise the data to enable interrogation by supplier, spend category (including Thomson Directory and Proclass), geography, volume of invoices, size of supplier and risk. Using one of hundreds of possible reports the organisation will be able to swiftly compile a procurement action plan, identifying both cash and non cash savings and maximising available procurement resource to achieve organisational transformation.

The diagram below sets out the methodology for the Review in pictorial format.



## 2.3 Outputs

The Project Initiation Document agreed with the States of Guernsey Project Sponsor sets out that Phase 1, the High Level Review, will deliver the following outputs:

- Mobilisation and detailed briefing for all Project Team members;
- Deliver change and communication plans;
- Determine roles for potential facilitators;
- High level gaps and opportunities identified;
- Draft high level analysis, potential opportunity streams identified and challenged;
- Matching with SoG and departmental priorities and objectives;
- Benchmarking exercises undertaken within and without; [Spikes Cavell]
- Confirm cross cutting themes and potential outputs for further investigation;
- Confirm mitigating and influencing factors, test and adjust accordingly;
- Impact assessment and prioritisation matrix drafted;

- Feedback sessions;
- Departmental challenge and prioritisation and planning workshop;
- Plan detailed FSR and adjust PID and project plan accordingly;
- Rationale for Government intervention explored.

## 2.4 Summary Opportunity Reports

The focus for Phase 1 has been to identify areas for further investigation. Where the potential for reducing costs and/or increasing efficiency has been identified during Phase 1, these findings have been captured on Summary Opportunity Reports (SORs). The SORs will, in due course, record the following information:

- A brief description of the opportunity
- The potential benefits of exercising the opportunity
- The rationale behind the opportunity
- The priority or urgency for the State to address the opportunity

These opportunities have neither been base-lined nor costed at this stage. This will be undertaken as part of Phase 2.

The Phase 1 top level analysis demonstrates areas worthy for further review and or investigation based upon information provided to us by the Service Department and by interrogation of other systems, and departments, across the States.

The confirmation of comparison by best practice will be determined when the full spend analysis data is available from Spikes Cavell and interrogation of SAP which will then enable these opportunities to be properly costed and prioritised. The Spikes Cavell report will serve as a separate Annex to the overarching States wide report.

The production of the Spikes Cavell report has been delayed due to the late availability of data. The highlights were declared in the presentation to the T&R board on the 17th of March with the final report being released thereafter.

## 3 Content and Purpose of Report

### 3.1 Introduction

This report provides a summary of the findings gathered in Phase 1 of the States of Guernsey Fundamental Spending Review. It aims to draw out the key areas for further investigation at departmental and organisational level, and identify the key themes and trends across the findings.

The scope of Phase 1 was to cover all departmental and cross cutting areas within the States of Guernsey, with the approach that if public funds were spent on an activity then it was included in the review. This wide yet shallow review of activity took place between 5<sup>th</sup> January and 18<sup>th</sup> February and involved meetings with every Department and central function. The output of this was a set of summary opportunity reports for each Department or function. These were presented to each Department in a summary report which also identified the drivers, levers and biters controlling spend within the department and the key trends and themes within the identified opportunities. In total 18 of these reports have been produced to date and these are listed below;

#### Departments

- Health & Social Services
- Education
- Social Security
- Public Services including States Works, Water, Airport and Harbours
- Commerce & Employment including Dairy
- Culture & Leisure
- Environment
- Home
- Treasury & Resources
- Housing

(Policy Council to follow)

#### Other Areas

- Offices of the Bailiff, the Greffe and Sheriff;
- Offices of the Procureur and Comptroller
- Alderney

#### Cross cutting themes / central functions

- Information Technology;
- Property;
- Procurement;
- Finance;
- Human Resources

These 18 individual reports were all reviewed with members of the Senior Management team within departments and functions and their comments incorporated into the final version. This report aims to distill the content of those 18 reports into a summary of the key findings and defines how this will form the direction for Phase 2 of the Spending Review.

### 3.2 Opportunities Identified

Phase 1 of the Fundamental Spending Review across all Departments and cross cutting themes has produced a total 298 Summary Opportunity Reports (SORs). These are grouped into those that are applicable to single departments and those that apply in more than one department and are therefore considered cross cutting.

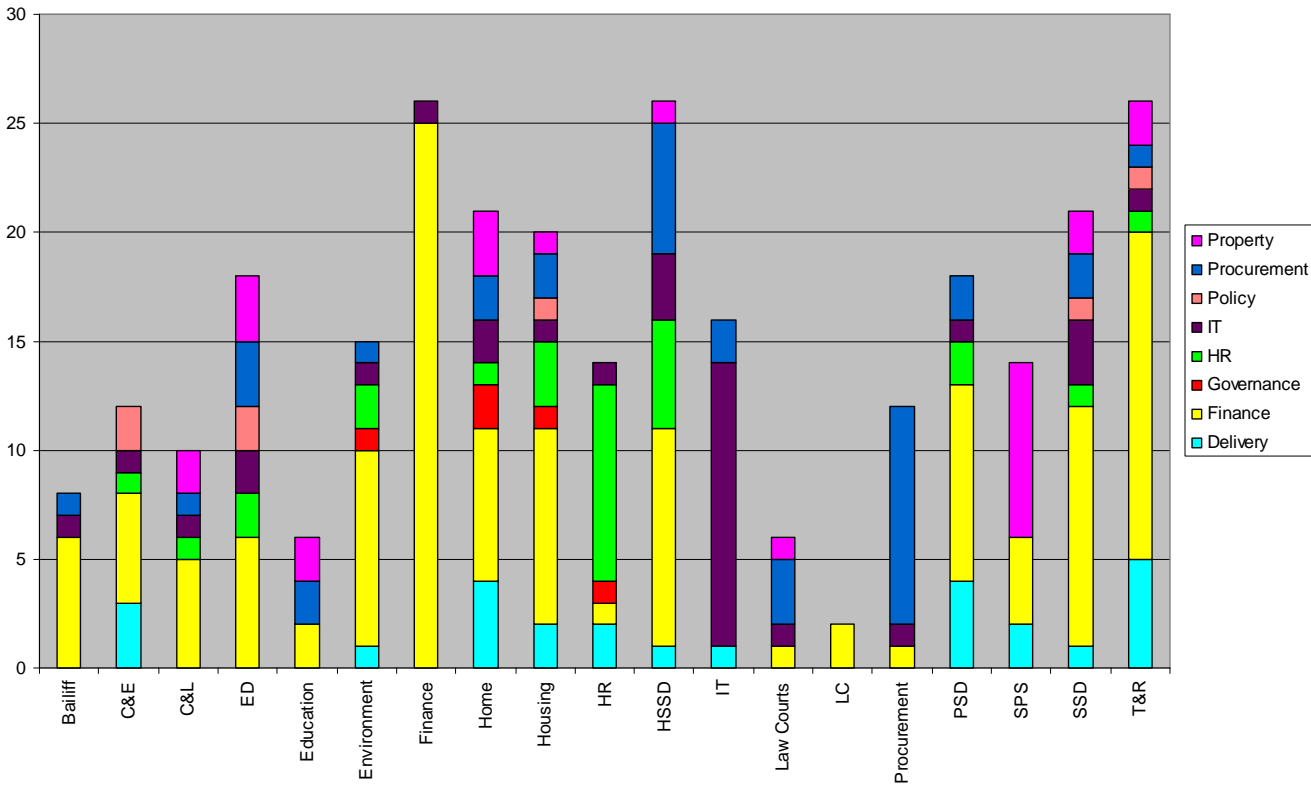
To effectively manage the workload in Phase 2 these SORs have been filtered and grouped into key areas for further investigation. Where similar activities have been recommended across a number of departments, these have been consolidated into a single work package for review. The result of this filtering activity has produced 14 consolidated work packages leaving 152 department specific SORs for further investigation.

Each SOR has been catalogued as being primarily associated with one of eight categories, namely;

- Finance
- Procurement
- HR
- IT
- Property
- Delivery
- Policy
- Governance

Figure 1 below illustrates the distribution of the total number of SORs across these categories and within each Department.

**Figure 1 - Consolidated SOR Distribution**



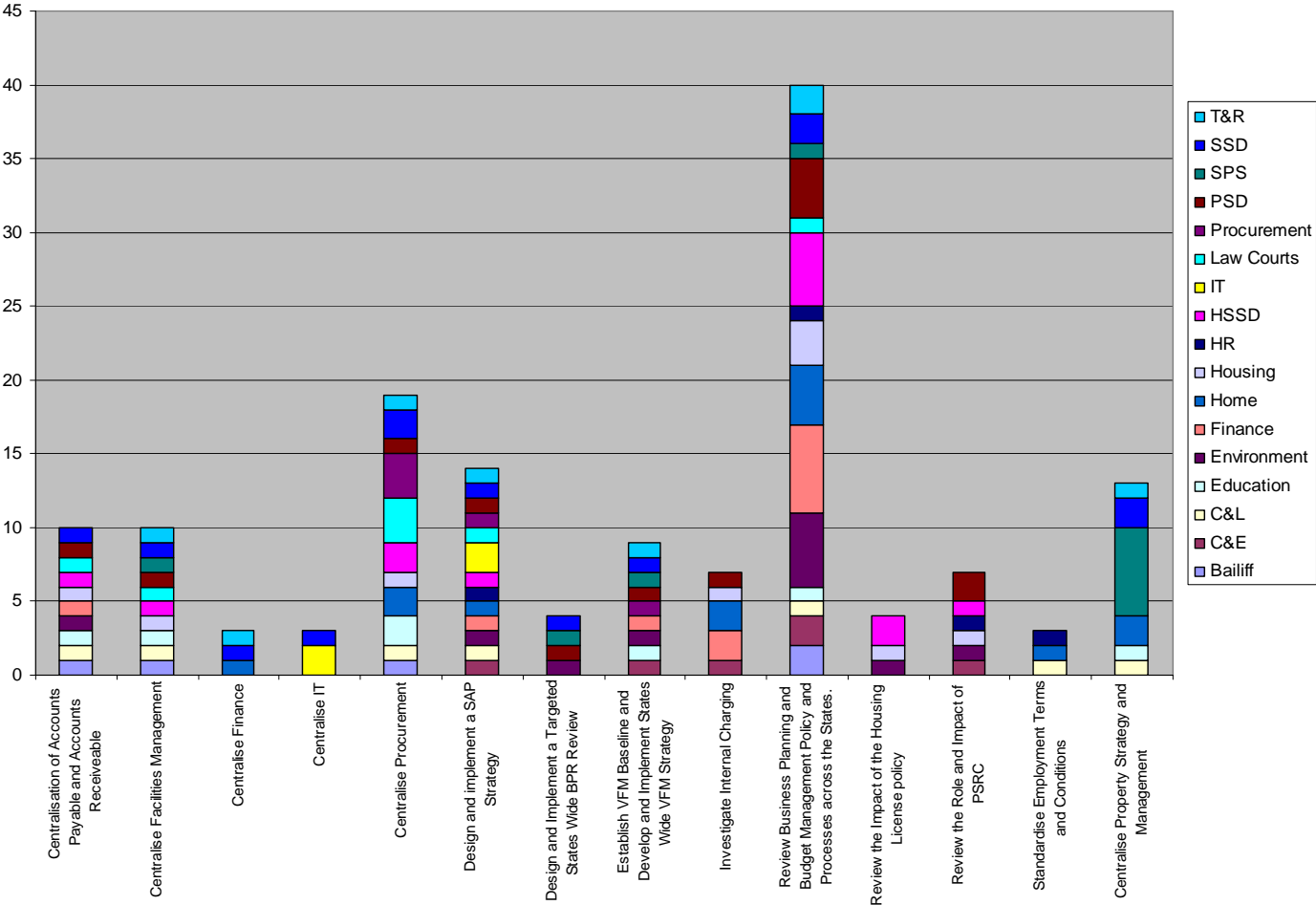
As can be seen from the graph, SORs relating to finance are by far the largest single category with 128 SORs or 43% of the overall total.

**Consolidated Work packages**

Figure 2, shows the 14 consolidated work packages, and the number of SORs from each department that have been allocated to each.

The largest individual work package relates to the review of business planning and budget management policy and processes across the States, and is built up from 40 related SORs from 15 of the 18 Phase 1 reviews completed to date.

**Figure 2 - Consolidated Work Packages**

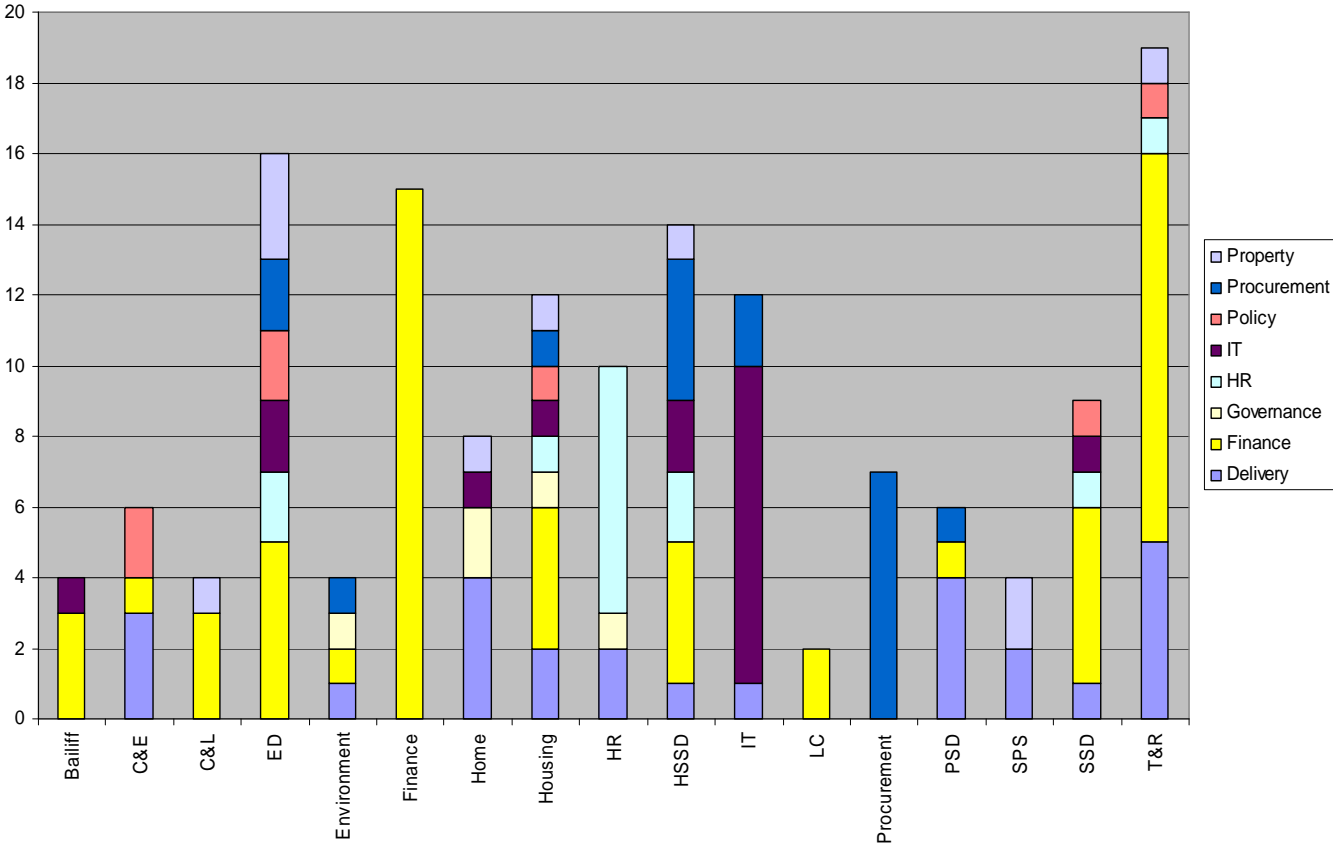


**Departmental SORs**

The second element of work for Phase 2 is the investigation of those SORs that apply to specific departments. Figure 3 shows the distribution of specific SORs across the departments and functions we reviewed in the Phase 1 work;

Again opportunities associated with finance represent the largest proportion of this group with 55 individual SORs or 36% of the total. The next largest group relates to opportunities that may be derived from changes to the way services are delivered, with 26 SORs or 17%.

**Figure 3 - Department/Function Specific SORs**



## 4 Key Themes and Trends identified

The following issues have all been identified as key themes across the organisation.

### 4.1 Business Planning

Phase 1 of the review focussed on the Government Business Plan and the extent to which priorities were adopted within Departments. Generally it was found that business planning across the organisations was poor in terms of setting realistic costed objectives with SMART (Specific, Measurable, Achievable, Relevant and Time related) targets to enable departments to measure whether the objective had been achieved.

Business planning was found to be inconsistent across the organisation with a range of approaches in departments, some having business plans or service plans for every workstream and others having a single plan for the whole department.

The link between the Government Business Plan and departmental business plans was tenuous and we found very limited evidence to demonstrate the existence of a “Golden Thread” and a holistic approach to business planning down from the States of Guernsey priorities through to departmental and business unit priorities.

### 4.2 Budget Planning and Monitoring

Without defined and measurable outputs set through a fully costed business plan, performance cannot be effectively measured and thereby know if expectations are being appropriately fulfilled. This in turn creates a weakness in the decision making process required for resource allocation.

Allocation of funding in departments tends to be done on an historical basis using previous year budgets plus RPI and additional requests based upon requirements to change the level of service. As a result budgets are not zero based nor are they built around deliverables. There are efforts in some areas to try and move to a more risk based form of budgeting.

The current one year budget cycle prevents effective financial planning and resourcing of capital projects and presents issues when recruiting staff and developing services. Resource planning is largely based on historical resourcing levels rather than on need/demand.

Where additional funding is required in year the allocation process is not based on a prioritisation or risk assessment approach. Requests for additional funding are not in all cases supported by a clear business case or risk assessment, and in such situations it is therefore difficult to effectively evaluate requests for additional funding. If a clear business case and risk assessment regime were imposed, then Departmental Boards would be able to make an informed and risk based decision on where to direct additional funding in year, and be able to clearly justify such decisions.

### 4.3 Value for Money and Performance Indicators

The current planning and monitoring framework, without a systematic performance review tied to budget management, also hinders Department’s abilities to introduce and manage Value for Money (VFM) initiatives. Effective VFM monitoring drives the effective delivery of front line services.

Information, of sufficient quality and depth, is not generated anywhere in the organisation to conduct comprehensive performance monitoring. Performance data that exists is fragmented and held outside any central system.

Without a States wide approach to VFM and efficiency targets the efficacy of services cannot be measured or compared with appropriate benchmarks. Individual Departments and Service Heads are unable to effectively determine whether services are providing value for money in terms of cost against outputs.

#### 4.4 Duplication of Support Functions

Across the States departments most have their own in house IT, Finance, Estates Management, HR, and Procurement functions, and in some areas there are duplications of these functions within departments. Whilst it could be argued in some departments such as Home and HSSD there is a specialist nature to these teams in supporting service delivery, there is an element to the work of all these teams that is generic across the States and could potentially be centralised, thereby reducing duplication and reducing costs. Phase 1 of the review has identified the need to review the value of a shared service function for States wide activities such as accounts payable and accounts receivable processing, procurement and HR transactional activity.

#### 4.5 Departmental Links and Relationships with the Centre

The Phase 1 review identified a number of issues regarding the interaction between departments and with departments and the centre. A significant number of examples were provided where the impact of a single departmental decision had on other departments' efficacy or cost was not considered. Departments operate in silos and any links or cross working is dependant on individuals rather than as a result of policy development or governance within the organisation. An example of this is the lack of collaboration between Home and HSSD in the provision of mental health services for offenders. The Housing Licence policy is another example where the impact on the ability of departments to effectively recruit does not appear to be considered in the application of the policy. The current governance structure provides departments with the autonomy to take decisions without assessing the impact across the organisation, or upon the totality of the States.

#### 4.6 SAP

There is no centrally applied strategy for the adoption, utilisation and operation of SAP across the States. As a result there is not full coverage in terms of usage by all departments. Where SAP is used interfaces are not robust which has a direct result on the efficiency (and cost) with which departments are able to process transactions and extract data from the 'corporate system'. Transactional efficiency will be significantly improved in the environment of a single integrated ERP system, providing end to end data management functions.

The States needs to consider whether to seek States wide commitment to adopt SAP as the designated corporate system, how to ensure SAP is fully adopted by all States Departments, and which additional modules should be introduced (HR, Accounts Receivable, Asset management, plant maintenance or Project Systems) to maximise benefits from the system.

#### 4.7 Property

Currently, there is no States wide corporate strategy for the utilisation, management and maintenance of property. States Property Services (SPS) are unable to mandate property policy across all of states departments. This has led to the suboptimal utilisation of the States property portfolio. Departments are able to engage in unilateral agreements and practices which are likely to be less cost efficient than a centrally coordinated occupation policy. These may include agreements for the rental or purchase of properties, the provision of facilities management services, or the maintenance of the fabric of the buildings themselves.

Opportunities are also likely to exist with the introduction of a States wide asset management and property maintenance strategy. Immediate economies are likely to be available solely from the larger scale contracts that are negotiated.

## 4.8 Recruitment and Retention

A number of States departments find it difficult to recruit and retain staff to the full establishment. Off-island recruitment has been pursued as a means to address these shortages, but this is not always successful due to the housing licence and TRP policies that make it difficult for potential staff to relocate to Guernsey. The PSRC decision making process on pay awards to bring salary levels to market rates, or offer specialist skill supplements has also exacerbated this situation and increased the use of contract, locum and temporary staff. The ability to staff departments adequately drives availability and quality of services, and in the example of HSSD, the level of off island referrals.

## 4.9 Procurement

The Procurement of goods, works and services within departments is inconsistent and falls outside of the control of the Corporate Director of Procurement. Across departments this review has found evidence of sporadic control of purchasing card expenditure leading to maverick spend, the ability for managers to purchase outside of the current guidelines and a lack of any overarching direct control of purchasing spend and monitoring, to ensure Value for Money or any direct link to budget setting;

The current fragmented nature of purchasing coupled with the lack of governance provides significant opportunity within the States for consolidation and generation of savings through effective leverage and commercial operations. In addition appropriate project management of major procurement programmes is sporadic.

## 4.10 Financial management

### 4.10.1 Accountability and management of spend

Treasury and Resources does not have the power to direct and control budgetary and financial management across the States. Departments have complete autonomy over how, when, where and why expenditure is incurred. Independence means that spend does not have to be justified before it is incurred, (although a capital prioritisation process has been recently introduced). There is therefore no transparency over planned outcomes associated with the spend and if those outcomes have been achieved after the spend has been incurred. The checks and balance on spend are not in place.

The absence of an Internal Audit function also severely weakens the control environment required to enforce a robust governance framework across the states.

In addition, unspent balances in year are not returned to Treasury & Resources even if the activity budgeted for has not taken place. Unspent budget is retained in department and as a result cannot be re-prioritised across the organisation

### 4.10.2 Cost centre structure

The cost centre structure set up in SAP is ineffective and therefore unable in effectively monitoring spend. The cost centre structure is not aligned to delivery groupings to enable effective management accountancy activities to be pursued. Some departments have far more cost centres than necessary whilst the Bailiff and Law Offices have only one. In addition there are no controls over who can post to which cost centres in SAP leading to weaknesses in the allocation of spend across the organisation.

### 4.10.3 Pricing of services & income generating opportunities

Opportunities exist in a number of departments to both increase revenue from existing income streams through effectively pricing services to cover costs, and generate additional income from the introduction of charges for services currently provided for free, or greatly subsidised, internally and externally, such as parking, permits costs, leisure centre membership and design of marketing materials.

#### **4.10.4 Capital expenditure**

The States have recently introduced a new capital prioritisation process where departments have to gain approval for capital expenditure. This process is very new so its impact cannot yet be assessed but this does provide a measure of control over capital expenditure.

The Social Services Department operates its own capital expenditure policy and does not need authorisation to spend money held within its department that has not been funded from general revenue. Whilst this allows the department to be more flexible and responsive in the delivery of its projects, the distance from the States governance of capital expenditure may allow the department to spend large amounts of funding that are not in line with the States order of priorities or subject to an appropriate level of rigour and challenge.

#### **4.11 Management of funds, grants and subsidies**

There are a number of grants and subsidies provided by States Departments. The efficacy of these payments in terms of the impact these have on the economy does not appear to have been tested and the value of these payments need to be reviewed. Examples of these are the subsidy payments to airlines, the Dairy Farm Management Scheme, and the private school subsidy paid for every student that attends the private schools on the island.

The underlying rationale for government intervention in these areas needs to be clarified. There is a question as to what behaviours or actions all of this expenditure is trying to encourage or discourage, and if this expenditure did not occur whether the free market could provide a sustainable service.

#### **4.12 Process optimisation, service alignment and delivery models**

A number of processes were identified across the organisation, which appear to be laborious and inefficient involving cross charging, multiple authorisations and paper based transactions. There is a significant opportunity to increase efficiency and reduce cost through a business process review programme to streamline such processes.

Ensuring that the alignment of service groupings within Business Units and Business Units within Departments maximises the potential to streamline systems and processes and increase service synergies. There is an opportunity to review existing structures and assess the extent to which any service re-alignment may release efficiency opportunities and this should be a key element of any States wide efficiency improvement programme.

In addition to issues around where services are performed (whether centrally or locally) separate questions exists around how they are delivered. Some services may for example, be more cost effectively supplied by external contractors under an outsourcing agreement. Functions such as Payroll, pensions, AR, AP and debt management are all potential candidates for external provision. Other services, for example architects and building surveyors, who sit within SPS, may be effectively provided by an external supplier under contract or may be ceased all together.

## 5 Organisational Challenges

### 5.1 Areas for Improvement

The key themes described and explored in the preceding section can, in most cases, be seen to be symptoms of weaknesses in the broader operational framework of the States of Guernsey. The scale of the operational weaknesses has meant that they have become embedded within the culture of the States, and as such form the basis of expectations and consensus view.

#### 5.1.1 Governance

The States of Guernsey is neither directed nor controlled as a single corporate entity. Rather, it is a collection of almost autonomous business units that are able to choose if or when they subscribe to 'corporate' policy or initiatives. Policies set at the corporate centre are not uniformly or consistently applied across all of the States departments, resulting in a number of distinct operational silos. T&R presently have no authority to enforce procedural policy. The result is that operational best practice is not captured or adopted by all departments, and economies of scale are forfeited by local actions. This has a material impact on how efficiently the States of Guernsey's resources are used.

The lack of corporate identity and authority hinders the efficacy of the decision making process. Where issues are identified that are States wide or multi departmental (rather than specific to a single department) it is often not defined at an operational level who, when or how the required decision is to be made. As a result corporate operational decisions may be deferred, or many are escalated to the political forum of the States. The escalation of operational decisions to the political level results in a corresponding shift in the decision making criteria and as such imposes additional constraints on the decision makers.

Once a decision has been made, the progression of that decision to the implementation phase is hindered by the inability to realign departmental priorities to support the new 'corporate' priority. The independence of departments means that where local priorities conflict with, or are not supported by the corporate priority the local priority is able to take precedence. There is no mechanism with which to enforce the application of corporate operational decisions. The chain of accountability ends at the departmental rather than corporate level.

This lack of corporate authority is particularly evident in those areas perceived to be 'support functions' such as finance, property, ICT and procurement. However these are the very areas where material efficiencies can be made without affecting the quality of the services delivered to the residents of Guernsey. Additionally, managing and delivering these 'support' functions has no adverse affect on existing services and allows resources to be released to enhance front line delivery.

#### 5.1.2 Budgetary Control and Management

Historically the resources available to the States to fund the delivery of its services have exceeded the funds needed to efficiently deliver those services. Requests for resources were met and overspends did not occur. In such an environment effective and rigorous budgetary management and control would not have been seen to add value. Hence, a financially profligate culture was able to flourish.

The fundamental economic decision about the allocation of scarce resources was not required. With no competition for resources, departments did not need to demonstrate how effectively they would utilise resources or indeed how effective past expenditure had been in delivering planned outcomes. Operating within this funding environment has meant departments have, in many instances, been able to provide 'gold plated' services or indeed services where there is no clear rationale at all for government intervention. There has also been no imperative to deliver services efficiently.

Additionally, an understandable side effect of the above is that a number of essential corporate processes either do not exist or are not sufficiently mature to be effective. These include transparent and evidence based mechanisms for assessing priorities and distributing and realigning budgets and metric based performance management and VFM initiatives.

The current cash accounting regime has also contributed to weakening the rigour of the financial management practices that exist within the States. Cash accounting does not recognise the full cost associated with the provision of services. With no transparency of full costs, decisions are being taken on the basis of incomplete evidence and as such are more likely to be suboptimal. The States have recognised this weakness and are progressing a workstream to move to an appropriate accounting regime (IFRS). This extensive piece of work should be given a defined timetable and be appropriately resourced to ensure its effective completion.

### **5.1.3 Changing Economic Environment**

The introduction of the Zero-10 tax regime coupled with the onset of the economic downturn will see a material reduction in tax revenue income for the States. The States is currently operating at a deficit and is being sustained only by the depletion of reserves. These reserves will be exhausted by 2011. A very real and immovable financial imperative now exists.

## 6 Organisational Changes

### 6.1 From Paper Report to Real World Implementation

Phase 1 of this review has identified 298 potential opportunities where improvements in the efficiency of the delivery of front line services may be directly or indirectly achieved. The costs, benefits, risks and delivery options of those opportunities will be identified and documented as part of the outputs of Phase 2.

However, the successful implementation of those opportunities, converting them into real world outcomes which benefit the economic well being of the people of Guernsey, is largely dependant upon appropriate decisions and actions being taken by the States.

To ensure the effective transition from paper report to implementation there are a number of key steps. These steps are primarily designed to compensate for the weaknesses identified in Section 5 of this report. They are not however, intended to replace the fundamental reviews and associated change programmes that are required to fully address the weaknesses that have been identified. For example, a full governance review and redesign of structures may be required but is outside of the scope of this Fundamental Spending Review.

The States will need to 'sign up' to a number of key processes, and the concepts that they represent, to allow effective implementation. This will provide the mechanism and framework for decision making and implementation.

It is noted that the Developing Our Public Sector initiative has created a base from which to affect cultural change, but it is imperative that its momentum is maintained and the ideology is embraced by all Departments.

The required actions and concepts to be agreed (via inclusion in a States Resolution) are;

- A commitment to an annual year on year efficiency reduction of 4.5% from 2010. To be run as a corporate programme led by T&R.
- An acceptance of the requirement to reinvest 1% of realised savings to enable those efficiencies to be realised and maintained.
- Departmental budgets for 2010 to be realigned to reflect outputs of Phase 2 of the FSR
- The adoption of an evidence based states wide funding prioritisation process – based on agreed criteria. To be in place by 2010.
- Departmental outputs to be measured, baselined and performance monitored
- Central monthly monitoring and variance reporting (requiring written explanations and corrective actions).
- T&R to have the power to clawback unspent balances
- All expenditure blocks within departments to require fully costed business cases before expenditure is authorised from 2010 onwards
- Corporate decisions are to be equally applicable and enforceable in all departments across the states.

It is recommended that the required States Resolution is tabled at the earliest possible opportunity to ensure that unnecessary procedural delays are avoided.

## 7 Summary and conclusion

Phase 1 of the Fundamental Spending Review of the States of Guernsey's expenditure has revealed an organisation with financial, structural and cultural characteristics that have contributed to the less than efficient delivery of services and an inherent lack of evidence based decision making. Governance and accountability structures are weakened by the lack of a strong corporate identity which affords those charged with administering operational policy (e.g. T&R) with the authority and power to make operational decisions and mandate practices, procedures and systems to be employed States wide.

With strong governance and accountability structures ending at departmental level we see the emergence of a number of independent, semi autonomous operational silos. These silos are then able pursue departmental priorities often at the expense of the benefit of the States as a whole.

The FSR, in Phase 1, has unearthed an unexpected amount of opportunities that warrant further exploration in Phase 2. The large number of opportunities identified reflects the base from which the States is starting and thus the scale of the challenge faced. A challenge than can be met only with the firm commitment of the States to subscribe to the actions and controls necessary to facilitate the successful implementation of the opportunities identified in this report.

The implementation of a Fundamental Spending Review is applauded and is the first step in a journey towards financial prudence. It offers a massive opportunity for the States to deliver both operational efficiencies and real parity that will enable budgets to balance in future years.

## **8 Next Steps**

### **8.1 Phase 2 Methodology**

All of the individual SORs identified in Phase 1 will be investigated in detail in Phase 2 of the project either within a consolidated workstream or as a departmental specific activity. The deliverables from Phase 2 will be prioritised and costed recommendations and action plans developed. These will be presented, as with Phase 1, to departments and the States corporately through feedback and review session(s) and a final report.

The Review Team will work closely with departments in Phase 2 to establish in detail the costs and benefits of pursuing the chosen opportunities and the viability of pursuing these to the delivery of an action plan.

### **8.2 Delivery Plan**

Detailed planning and resource allocation will take place week commencing 2<sup>nd</sup> March with a delivery plan for Phase 2 addressing the consolidated and individual SORs across all departments. The workplan will identify dependencies and synergies between opportunities to ensure work is scheduled appropriately. The core team will deliver the bulk of the Phase 2 work and will be deployed in areas that support their strengths and experience. The core team will be supported by subject matter experts where necessary to ensure full understanding of the issues presented and maximise the opportunities available to the States of Guernsey.

It is the intention that Phase 2 will commence on 10<sup>th</sup> March with the review completed and the final report produced by 30<sup>th</sup> June as agreed at the outset of the project.