The Comprehensive Spending Review

Chancellor of the Exchequer, George Osborne, had the unenviable task of doling out the bad news to the UK on spending cuts in The Commons on 20th October 2010. In the short time since then many comments have been made in different quarters of business. Here is a round-up of some of them that we have found. What do you think? Will it make a difference to you?

Commenting on the impact of the spending cuts on the public sector, partner and public sector specialist, Paul Brewer, at PwC in Scotland, said:

“Finally, after weeks of well trailed inevitability, we have the clarity we need to move forward. The public sector recession is now well and truly in full swing and the effects will be felt for years to come – not just by the public sector but by businesses, communities, the third sector and individuals.

“The severity of the cut in DEL allocation to Scotland will undoubtedly have far reaching impacts. Scotland simply cannot afford the current level of public expenditure and it can no longer afford to be wasteful in any aspects of public service delivery.

“While cuts of the magnitude may be appropriate for the UK economy as a whole, Scotland will undoubtedly suffer more due to its heavy reliance on the public sector. Job cuts will be inevitable –we now anticipate between 71,000 to 86,000 public sector roles could go by 2014/2015* – however, we cannot rely on this means alone.

“Scotland must be brave. The challenge for the Scottish Government over the coming weeks will be to ensure that resultant cuts are made in the right places in order to preserve our vital front line services and free resources in order to build and invest in sustainable infrastructure and job creation which is crucial to economic growth.

“With a 38% cut in the capital budget there is a real and present threat to programmes such as schools and roads. As we endeavour to grow the economy out of recession, however, it is crucial that we continue to focus our attention on maintaining this investment rather than sacrificing it for short-term spending.

“Local government leaders also need to grasp the nettle and act now to not only innovate service delivery and redesign front line services but reorganise back office support functions to ensure that those essential services needed by our vulnerable communities can continue to be delivered with fewer resources. Indeed, research by PwC has shown that savings in the region of 40% can be made by standardising, simplifying and sharing back office functions.

“We believe that, with the right approach, Scotland has the potential to meet these challenges head on and become a stronger, more dynamic economy.”

Education

In response to today’s CSR announcement by the Chancellor, Alan Gray, director and education specialist at PwC in Scotland, commented:

“While the schools budget in England is increasing in real terms, the position in Scotland is less clear. Achieving a similar outcome for Scotland and protecting schools and health from funding cuts will have implications for the other public services where the impact of reduction in spending may have to be greater and deeper.

“Within Higher and Further Education, there will undoubtedly be cuts in core teaching and research funding, albeit the UK Government has given a clear commitment to supporting science. With tough choices still having to be made around the funding of tuition fees, Scotland's universities and colleges will have to consider options for reducing administration and back office costs in order to continue to maintain a broad portfolio of education, research and knowledge transfer activity."

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The Institute of Directors has made a statement about the Spending Review announcement:

- We very much welcome the Government's determination to stick to its overall plan of reducing public spending by £83bn over the next 5 years. **The key to getting the private sector recovery underway is macro-economic stability**. This will only be achieved with sustainable public finances. Opponents of today's spending reductions need to wake up to that fact.
- Between 1991 and 1997 public sector employment fell by 600,000 – roughly on a par with the falls projected as a result of the Spending Review – **but this did not prevent a sustained upturn in economic growth**. Similarly, in the late 1990s the sharp fiscal squeeze introduced by Gordon Brown over the 1997-99 period went hand in hand with strong economic growth. Whilst growth prospects are not as good now, they are not as bad as the gloom merchants would have us believe.
- Following the June Budget we stated that the only area of public spending that should be ring-fenced was that for **key infrastructure**. Consequently we welcome the fact that although transport investment faces an 11 per cent reduction over the next 4 years, it could have been far worse. The spending settlement for transport, energy and

ITC investment is better than we had feared.

Commenting, Miles Templeman, Director-General of the IoD, said:

“We strongly support the Government’s determination to stick to its overall plan of reducing public spending quickly. The only way we get a private sector recovery underway is through macro-economic stability, and this will only be achieved with sustainable public finances. Opponents of today’s spending reductions need to wake up to that fact. The alternative is a tax hike which would damage the economy in both the short and long term.

He added:

“If today’s spending review is to succeed the Government will have to deliver fundamental root and branch reform which transforms the productivity of the public sector. We need to remember that if the public sector had matched the private sector’s productivity growth over the last decade, the deficit would now be £60bn less than it is. Less can be more.”

Some specific points:

Welfare Reform

- Additional welfare reform measures are welcome as initial steps to reduce the overall welfare budget and get people back into work.

Public Sector Pensions

- The proposed savings on unfunded public sector pensions are a welcome first step in tackling this economic and political time bomb.

Schools and colleges

- Improving education performance is central to improving the long-term supply of skills into the workforce. But whilst the Chancellor announced a generous overall settlement for schools, ultimately it is radical reform, not additional funding, that is the key to raising standards. We welcome the promise of additional autonomy for schools over the spending of their budgets, and on freeing further education colleges from unnecessary bureaucracy.

Universities

- The Spending Review announces that, from the 2012-13 academic year, universities will be able to increase graduate contributions. For the long-term competitiveness of the higher education sector, it is vital that Lord Browne's recent report into university funding and student finance is treated as a blueprint, not a pick-and-mix.

Skills and Apprenticeships

- Shortages of STEM skills are a particular problem and the prioritisation of science spending will be welcomed by many businesses. The demise of the Train to Gain programme, conversely, will not be widely mourned. However, the decision to increase funding by £250 million a year by 2014-15 on new adult apprenticeships is questionable. The Government should be wary of introducing too much bias in the way it favours, funds and promotes Apprenticeships: they are not a universal training solution and are not suitable for all types and sizes of organisation.

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Responding to the Chancellor's statement, President of the Law Society of Scotland, Jamie Millar said:-"Much will depend on how The Scottish Government responds to the reduction in its block grant. However, there is little doubt that such significant cuts in public spending will impact the Scottish justice system and the public's access to that system.

"All of us in the justice sector must now work together in the public interest and enter into a mature debate on how best to deliver these required cuts in spending. There are no easy answers but the Law Society of Scotland is certainly ready to be part of that debate."

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The Chartered Institute of Personnel and Development, CIPD, says that excellent people management will be crucial in determining whether public services can survive the cuts

The unprecedented scale of change set out in the Government's Comprehensive Spending Review (CSR) cannot be delivered without a concerted and committed focus on supporting, bolstering and improving public sector management capability, according to the Chartered Institute of Personnel and Development (CIPD).

Although employee morale and engagement is bound to suffer in the face of this scale of cuts, the CIPD is urging those with responsibility for public sector management – up to and including ministers – not to lose sight of the possibilities and opportunities to genuinely engage and enthuse public sector workers about new ways of working and to secure buy-in to new means of service delivery.

Research published by the CIPD on Monday, exploring public attitudes to possible post-CSR industrial action in the public sector, highlighted that striking workers would quickly lose sympathy amongst the wider public. However, Mike Emmott, employee engagement adviser at the Chartered Institute of Personnel and Development (CIPD) warns that ministers cannot afford to take solace in these findings if the end result is a demotivated and disengaged public sector workforce:

“Our research shows unions cannot rely on public sympathy to face down the Government’s cuts through sustained strike action. But equally, ministers cannot rely on limited enthusiasm for strikes to deliver their vision of reformed, streamlined and diversified public service delivery. The reality is more complicated. Front-line commitment and industrial harmony can only be delivered by persuasive messages about why the cuts are needed, and an unswerving focus on excellent day to day management of the ‘survivors’. Effective and sustained change will only happen in organisations where senior leaders show a sustained commitment to building staff engagement to ensure there is buy-in to change and new ways of working.”

Warning that the way people are engaged and managed will be the critical factor in determining whether the scaled back public sector set out in the CSR is still capable of delivering on ministerial and public expectations, Mike Emmott, says:

“Proposals to improve the autonomy and empowerment of front-line service workers will fail if front-line managers are not equipped with the skills to support these behaviours. Radical plans such as employee-led public sector co-operatives and a step-change in co-ordination and collaboration between local public service providers can only succeed if there is a sustained focus on building management capability. Our research consistently shows a high degree of loyalty amongst public service workers to the services they seek to provide, and the people they provide them to. That loyalty cannot be taken for granted over the next five years. Instead, it will need to be carefully nurtured and harnessed by inspiring managers, focused wholeheartedly on their management responsibilities if the promise of wholesale changes to methods of service delivery is to be realised.

“As an example, the success of government plans to transfer health service commissioning powers from Primary Care Trusts to GP consortiums in the face of 45% cuts to management will hinge on whether GPs are equipped with the leadership and management skills that will be so important to their new roles. GPs will need to have leadership skills to take charge of service commissioning, as well as the people management skills to manage and motivate employees and partners in other services to work collaboratively and deliver for patients.

“How these changes are managed and the extent to which employees feel they are consulted and have a voice will also be fundamental to whether they understand and buy-in to new ways of working.”

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Tom Clougherty, executive director of the **Adam Smith Institute** gives his initial reactions to the spending review:

“I’m delighted that the Chancellor has stuck to his guns, and laid out plans to eliminate the structural deficit by the end of the parliament. Politically, this may be difficult, but economically, it is absolutely vital.

“It is important to remember though that severe as some of these specific cuts are, the overall impact of the spending review is modest. Health spending is protected, while areas like social security and debt interest payments – which the review’s cuts will not affect – are set to surge.

“In cash terms, government spending will continue to rise over the term of the government. In real terms the overall cuts only amount to a couple of percent.

“We need to realize that this is just the beginning. It is vital that the government goes on from here to carry out a radical, comprehensive reform of the public sector, since only that will make cuts sustainable in the long term.

“We also need a hard-headed, positive agenda for economic growth. Now the spending review is out of the way, the government's attention must turn to these issues."

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Commenting on the impact that the Comprehensive Spending Review, as announced by Chancellor George Osborne, is likely to have on the architectural profession, Christopher Littlemore, CEO of Archial, one of the country's largest architectural practices, said:

"Every architecture practice undertaking public works in the UK will be affected by the CSR Review. Those aspiring to continue to find work in the public sector will have to think creatively to identify innovative ways of achieving clients' goals and seeking solutions to their various challenges. At Archial, for example, we have been focusing on identifying alternative funding sources and developing dual-use (public and private) buildings.

"The Chancellor might claim that the 19% average cuts to departmental budgets were less severe than expected, but the reality is that, over a four year period, this CSR will see almost 500,000 public sector jobs cut, the local government budget reduced by 27%, social housing by 71%, culture down 24%, transport down 21%, energy and climate down 18.7% and defence down 7.5%." Archial is part of The Ingenium Group

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