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BILLET D'ÉTAT

TUESDAY, 27th OCTOBER, 2009

TREASURY AND RESOURCES DEPARTMENT -
FUNDAMENTAL SPENDING REVIEW

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B I L L E T   D'É T A T

TO THE MEMBERS OF THE STATES OF

THE ISLAND OF GUERNSEY

I have the honour to inform you that a Meeting of the States of Deliberation will be held at **THE ROYAL COURT HOUSE, on TUESDAY,** the **27th OCTOBER, 2009,** at 9.30am, to consider the item contained in this Billet d'État which has been submitted for debate.

G. R. ROWLAND
Bailiff and Presiding Officer

The Royal Court House
Guernsey
24 September 2009

TREASURY AND RESOURCES DEPARTMENT

FUNDAMENTAL SPENDING REVIEW

The Chief Minister
Policy Council
Sir Charles Frossard House
La Charroterie
St Peter Port

28th August 2009

Dear Sir

1. Executive Summary

This report outlines the work undertaken to date on the Fundamental Spending Review (FSR) process which was initiated by the Treasury and Resources Department in an attempt to ensure that public sector expenditure is better controlled and delivers value for money for the residents of the Bailiwick. This project is particularly important and valuable at a time when the States are operating a structural deficit and considering the implementation of additional taxes in order to close that gap.

Tribal Consulting Limited (formerly Tribal Helm Corporation Limited) ("Tribal") was appointed to carry out the FSR after a competitive tendering process in the autumn of 2008. The initial phases of work completed have resulted in a total of 107 opportunities for efficiency savings being identified which have been packaged into seven work streams. If successfully implemented, Tribal are predicting that they have the potential to yield total net cumulative savings to the States budget of £70million over a five year programme period.

In order to deliver these efficiency savings, the Treasury and Resources Department is recommending that a Financial Transformation Programme is established to manage the delivery over the period. It is vital that this change and the resulting efficiency savings are managed corporately across all Departments as any attempt to deliver the opportunities in a fragmented approach would be inefficient and likely to lead to significant duplication of activity and effort which would inevitably increase the costs of delivery and therefore reduce any savings.

The Financial Transformation Programme delivery will require a dedicated team to be established to manage and co-ordinate the programme. This team will need to be supported by a robust governance structure to ensure that responsibility for delivery is suitably delegated and to carefully manage the delivery of savings. The Treasury and Resources Department is recommending a system of governance which involves the vision for delivery residing with the States of Deliberation, strategy and political oversight delegated to the Policy Council and day to day accountability for delivery resting with a Financial Transformation Executive and supported by a dedicated Programme Management Office. The Department believes that this structure, along with specialist support from Tribal, will enable the full potential savings to be realised.

The Department strongly believes that the States must deliver the required vision by signing up to a set of principles for the FSR process. These are detailed in section 6 of this Report.

The delivery of the benefits of the FSR will require significant initial investment in order to achieve the savings and to provide a solid foundation for establishing and embedding change. As such, the Treasury and Resources Department is recommending that a "Fundamental Spending Review Fund" be established and funded by way of a loan of £10million from the General Revenue cash pool. This will ensure that sufficient funds are available to invest in the first two years of the programme.

2. Background

In the 2008 Budget Report, the Treasury and Resources Department announced its intention to undertake a Fundamental Spending Review as part of its commitment to ensuring that public sector expenditure is better controlled and waste and inefficiency reduced. In embarking on this process, the Department believed that if the Review was undertaken effectively and adopted by all Departments as a 'corporate' tool, it would result in more efficient and effective departmental spending plans that focused on the States' priorities.

The Department's view was that the Fundamental Spending Review should embrace the following:

- Are there services currently being provided by States Departments which could be reduced or ceased altogether?

- Are there services currently being provided by the States that would be better provided by the private sector?

- Are there services currently being provided by States Departments which could be provided (by them) more efficiently?

- Have Departments prioritised their services appropriately and are these broadly aligned to the Government Business Plan and Departments' operational plans?

- What essential services should Departments be providing that they are currently unable to as a result of insufficient funding?

- Can existing funds be reallocated to (current or new) priority areas?

- Are Departments' base budgets set at the right limits?

The key objectives for the Review included ensuring that:

1. *"Departments' spending plans provide for the most efficient and effective delivery of essential services.*

2. *Departments' services (including corporate services and initiatives) are prioritised effectively and broadly in accordance with the aspirations of the Government Business Plan.*

3. *Departments are only engaged in delivering essential services and those services that cannot or should not be provided by the private sector."*

The Treasury and Resources Department also acknowledged the importance of involving Departments in developing the most appropriate framework within which the Review would be undertaken. In order to deliver the best outcomes it was vital that the Review was not perceived as an initiative which was being 'forced' upon Departments; instead it was the intention that the Review should be embraced as a necessary corporate measure.

In February 2008, the Department went out to tender for the Framework for the Fundamental Spending Review. The scope of the Framework included, but was not limited to:

- Shaping the key objectives;

- Formulating the intended outputs;

- Proposing the method for delivery of the Fundamental Spending Review including resourcing implications and timescale;

- Consideration of internal resources and possible utilisation; and

- Measurement framework for benefits realisation.

"Sector Projects" was appointed to undertake this phase of the project and worked closely with all Departments and Committees to develop a framework which was tailored to the States of Guernsey's requirements. This framework was finalised and delivered in July 2008 and covered a set of principles and a methodology for the review. In addition, it also added a fourth objective to those identified by the Treasury and Resources Department which was "*to embed the mindset and approach of the spending review into a cyclical process for the States with a view to ensuring a future legacy*". This framework was then used as the specification in tendering for the delivery of the review which resulted in the appointment of Tribal in November 2008.

3. The Phase 1 Report

Following a two week mobilisation exercise in December 2008 and a six week high level review in early 2009, the Phase 1 Summary Report was finalised at the end of February 2009 and identified a total of 298 **potential** opportunities across the States which, if developed as part of Phase 2, could lead to increased efficiency in the delivery of services either directly or indirectly. The opportunities ranged from those which were applicable to a particular Department to those which cut across several or even all Departments of the States. The key themes highlighted from these opportunities were:

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

The report concluded that the Phase 1 investigation "*has revealed an organisation with financial, structural and cultural characteristics that have contributed to less than efficient delivery of services*". The report went on to say that "*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 to pursue departmental priorities often at the expense of the benefit of the States as a whole*".

Tribal commented that the large number of opportunities identified was a reflection of the starting point and the immense challenge faced. It proposed that all 298 opportunities should be developed as part of Phase 2 with the costs, benefits, risks and delivery options being more fully explored in order to deliver an outline business case for each opportunity.

The Treasury and Resources Department accepted the findings in the Phase 1 report and, along with Tribal, undertook a significant communication exercise to share the findings with States Members, public sector employees and the public through the media before proceeding with Phase 2.

4. The Phase 2 Process

The detailed Phase 2 work took place between March and June 2009. Tribal developed 14 consolidated work packages which covered all of the identified opportunities. Each work package was assigned a Tribal lead officer who worked closely with Treasury and Resources Department staff as well as Chief Officers and Senior Finance Officers from each Department of the States.

Detailed questionnaires were compiled to gather information which complemented the schedule of meetings with relevant officers to glean further information. A Summary Opportunity Report (SOR) was compiled for each phase 1 opportunity or group of opportunities as appropriate. The SORs are uniform in their content and cover:

- Whether a particular opportunity does in fact exist following the more in depth work carried out during Phase 2;
- The rationale for pursuit;
- The cashable and notional benefits of delivery;
- Any implementation costs;
- A milestone map of the outline implementation project;
- The key people and any stakeholders who should be involved;
- The feasibility of delivery;
- Identified risks; and
- A priority ranking.

As the SORs, or outline business cases, were drafted, they were shared with Departmental staff for comment and challenge. Every Chief Officer was given the opportunity to comment on each SOR which impacted on their Department (including cross cutting SORs) and a sign off process was put in place to ensure the factual accuracy of the data and assumptions underpinning the opportunity.

The Treasury and Resources Department would like to take this opportunity to express its appreciation to all those staff who were involved in the Phase 2 process. A tremendous amount of work had to be undertaken during a relatively short timescale and the Department commends the commitment shown by these staff.

5. The Phase 2 Report

(i) Revenue Efficiencies

The Tribal Consulting Limited Fundamental Spending Review: Phase 2 report (attached) was delivered to the Treasury and Resources Department in July 2009 and outlines the potential for the States to deliver savings as shown in the table below against the "base" or opening budget which is the 2009 Budget of the States:

	2010 £'000	2011 £'000	2012 £'000	2013 £'000	2014 £'000
Opening Budget	**311,000**	**307,892**	**304,348**	**299,515**	**289,556**
Implementation Costs	1,355	626	640	356	327
Increase in Baseline Costs	1,695	1,379	1,086	634	629
Total Costs	*3,050*	*2,005*	*1,726*	*990*	*956*
Gross Savings	(4,803)	(4,923)	(5,919)	(10,593)	(10,637)
Net Savings	**(1,753)**	**(2,918)**	**(4,193)**	**(9,603)**	**(9,681)**
Add back Implementation costs	(1,355)	(626)	(640)	(356)	(327)
Revised Base Budget	**307,892**	**304,348**	**299,515**	**289,556**	**279,548**
Net Savings against Baseline Year	1,753	6,026	10,845	21,088	31,125
Cumaltive net savings	1,753	7,779	18,624	39,712	70,837

The projected efficiency savings for the period 2010 to 2014 represents a 10% or £31million decrease in the base budget of the States, in 2009 terms, allowing total net cumulative cash releasing savings of £70million to be accrued. However, the Tribal report stresses that ***"any attempt to deliver the opportunities using a fragmented approach would in itself be inherently inefficient, with a substantial level of duplication of activity and costs across individual projects resulting in additional revenue expenditure by a factor of 25%, decreasing the net revenue saving accordingly".*** This statement confirms that inefficient delivery of the savings could increase the overall costs of implementation by in excess of £2million.

The phase 2 report once again quantifies the cost to the island of Departments continuing to work in 'operational silos'. It outlines that "*as a consequence operational best practice is not captured or adopted by all departments, and economies of scale are forfeited*". It goes on to underline that **silo working accounts for 73% or £51million of the net efficiencies identified through the FSR process**.

(ii) Capital Investment and Efficiencies

Tribal's Phase 2 report also identifies the capital investment required in order to release some of these ongoing revenue savings and to generate one off capital savings. The capital implications of the FSR are outlined in the table below:

	2010 £'000	2011 £'000	2012 £'000	2013 £'000	2014 £'000	Total £'000
Capital Costs	(4,426)	(15,789)	(7,254)	(1,758)	(1,498)	**(30,725)**
Capital Savings	2,012	10,761	8,830	2,528	1,828	**25,959**
Net Capital Savings/(Expend)	**(2,414)**	**(5,028)**	**1,576**	**770**	**330**	**(4,766)**

The Treasury and Resources Department does not believe that the capital projects which underpin these figures, for example IT and property developments, should be added to the current States Capital Programme which was agreed in June of this year. Instead, it is recommending that these projects be managed as part of the FSR delivery in order to ensure complete alignment between the development of a capital scheme and the resulting capital and revenue benefits. However it does believe that any proposed capital projects should be subject to the strategic review process developed for Capital Prioritisation to ensure consistency of approach.

By combining the cumulative net revenue savings over the five year period and the net capital expenditure, it is clear that the FSR process has the potential to deliver overall savings to the public purse of around £66million.

6. Tribal's Recommendations

The Phase 2 report makes three key and wide ranging recommendations.

1. Establish a States Transformation Programme

The recommendation is to **ultimately** establish an integrated Transformation Programme for the States of Guernsey (and managed through the Policy Council) which will create:

- A culture of cost consciousness and shared responsibility for delivery;
- A change in behaviour towards a mentality of putting the best interests of the States and the Island first, as opposed to departmental interests, and the concept of always implementing best practice where appropriate. Inherent in delivering this is stronger leadership across the public sector and an acceptance of personal accountability and responsibility;
- Developing the performance of the public sector through rewarding good performance and managing poor performance;
- Competence through facilitating the right skills to do the job that needs to be done;
- Clear lines and boundaries of accountability and an acceptance of accountability;
- Effective management systems i.e. those that provide the required level

of business control, ensure outputs are optimised and lessons learnt for future improvements; and

- Continual improvements of processes or efficiency which involves focussing on output rather than input and embedding a continual drive for improvement.

It is acknowledged that this is a longer term goal for the States and that, although achievement of the above is vital in delivering sustainable change, the work to deliver the efficiencies identified in the Phase 2 report can and should be commenced immediately. The Fundamental Spending Review and its outputs are complementary to the longer term goals envisaged by a States wide Transformation Programme.

In essence, a significant part of the Transformation Programme is a Financial Transformation Programme which should be established immediately in order to deliver the recommendations and realise the savings identified in Tribal's report.

2. Articulate and communicate a vision for the States

The aim of this recommendation is to develop a vision and purpose for the States by way of its aims and objectives which will provide a "golden thread" enabling a clear line of authority from the States Strategic Plan to departmental operational plans.

It requires the development of a medium term business plan and this process has been started through the launch of the States Strategic Plan which supports the findings of the FSR.

3. Embed a sustainable way of working

This recommendation outlines the requirement for more effective governance across the States which not only enables the delivery of the next phase of the FSR but lays the key foundations for embedding the change in the organisation.

The Treasury and Resources Department has already recognised the need for improved governance and will bring forward, for the November States meeting, a new framework for controlling the resources of the States through its proposed "States Rules for Finance and Resource Management" which would impose a rigorous and consistent discipline across all Departments of the States in the way that finances and resources (such as property and Information Technology) are managed.

Tribal's Phase 2 report underpins the four objectives set for the FSR and discussed in Sections 2 and 3 above. In order to move forward into the delivery, or implementation phase, the report makes it clear that it is imperative that the States commit wholeheartedly to the implementation of Tribal's recommendations and specifically to:

- A States wide five year programme and the introduction of year on year efficiency targets for all Departments;
- Reinvestment in order to realise further efficiencies;
- Re-aligning Departmental budgets, to reflect the refreshed States Strategic Plan and the outputs of the FSR Phase 2;
- Pursuing SORs to detailed business case stage which will include the examination of the appropriateness of those essential services that may be delivered by the private sector;
- A Financial Transformation Programme charged with managing and coordinating the SORs identified by the FSR Phase 2 as part of a wider, integrated Transformation Programme (as referred to in 1 above); and
- Introducing a Departmental performance management framework so that Departments' results are baselined, measured and then used to develop value for money indicators against which delivery can be measured.

The Treasury and Resources Department would take this opportunity to emphasise to States Members that unless they are prepared to embrace and support the (Phase 3) implementation of Tribal's findings and recommendations, and accept that this will, without doubt, involve very difficult political decisions in the months and years ahead, then the anticipated benefits and financial savings that have been identified, will not be realised. The Department believes that this level of commitment can be encapsulated in the following principles which it believes the States should endorse.

That the States:

- Reinforce their commitment to the delivery of savings through the FSR in order to ensure that public sector expenditure is controlled and waste and inefficiency reduced;
- Accept that difficult political decisions lie ahead in advance of the realisation of the benefits;
- Acknowledge the need for a fundamental shift towards more corporate working which will facilitate the delivery of the majority of the potential savings identified by the FSR;
- Accept that investment is vital in key areas to unlock the savings potential and provide a platform for sustainable delivery of savings;
- Accept the necessary diversion of staff resources away from routine work in order to deliver change;

- Acknowledge the risk that not all of the proposals will deliver the anticipated change or savings;

- Recognise the need to prioritise and resource long term corporate initiatives over short term Departmental issues; and

- Agree to commit to delivering this vision and underpinning decisions through the ratification of this Report.

7. Phase 3 – the proposed work-streams

The FSR has identified savings opportunities at both Department and cross cutting levels. The Phase 2 report recommends that a Financial Transformation Programme (Phase 3) be initiated in order to develop and deliver the efficiencies and savings and that this is organised through a series of seven work-streams around key themes which are:

- Value for Money and Efficiency

- Property Rationalisation and Asset Management

- Financial Management

- Information and Communication Technology

- Human Resources

- Procurement

- Grants and Subsidies

The Phase 2 report outlines some more detail on each of these work-streams including the rationale for their selection and how they underpin the delivery of the objectives of the FSR. Each work stream programme is documented including the focus for realisation of projects and their benefits.

In addition, an annex to the Phase 2 report has been produced (attached) which summarises each of the 107 individual phase 2 SORs through outlining the opportunity, the rationale and potential benefit. Specifically, each summary SOR outlines:

- The associated costs and potential savings;

- The approach that should be taken;

- A risk rating based on an evaluation of all of the risks and their impact; and

- A priority score based on a number of factors including feasibility, the value of savings, delivery timescales and the scale of impact.

It is important to note that these SORs are effectively **outline** business cases and that significantly more work needs to be undertaken to reach the full business case at which point the costs and savings as well as deliverability become firm. Caution should be exercised in trying to reconcile the figures in the annex to the totals in the main body of the report since the Phase 2 report presents the *consolidated budgetary impact of delivering the opportunities within the framework of an integrated transformation programme*. The main report takes into account any potential double counting through the SORs, it removes any non-cash costs or savings and adds in any high level costs which may be incurred as a result of the programme such as redundancies. The Financial Transformation Programme will affect both the scale and timing of the costs incurred and benefits achieved and is not a simple addition of the sum of the parts.

The Treasury and Resources Department fully supports the proposed Phase 3 work-streams.

8. The Next Stage

In order to deliver such a fundamental change, a dedicated team will need to be established to manage and co-ordinate the programme and a robust governance structure put in place to ensure appropriate leadership to the process and carefully manage the delivery of savings as well as the investments required to achieve them.

Implementation

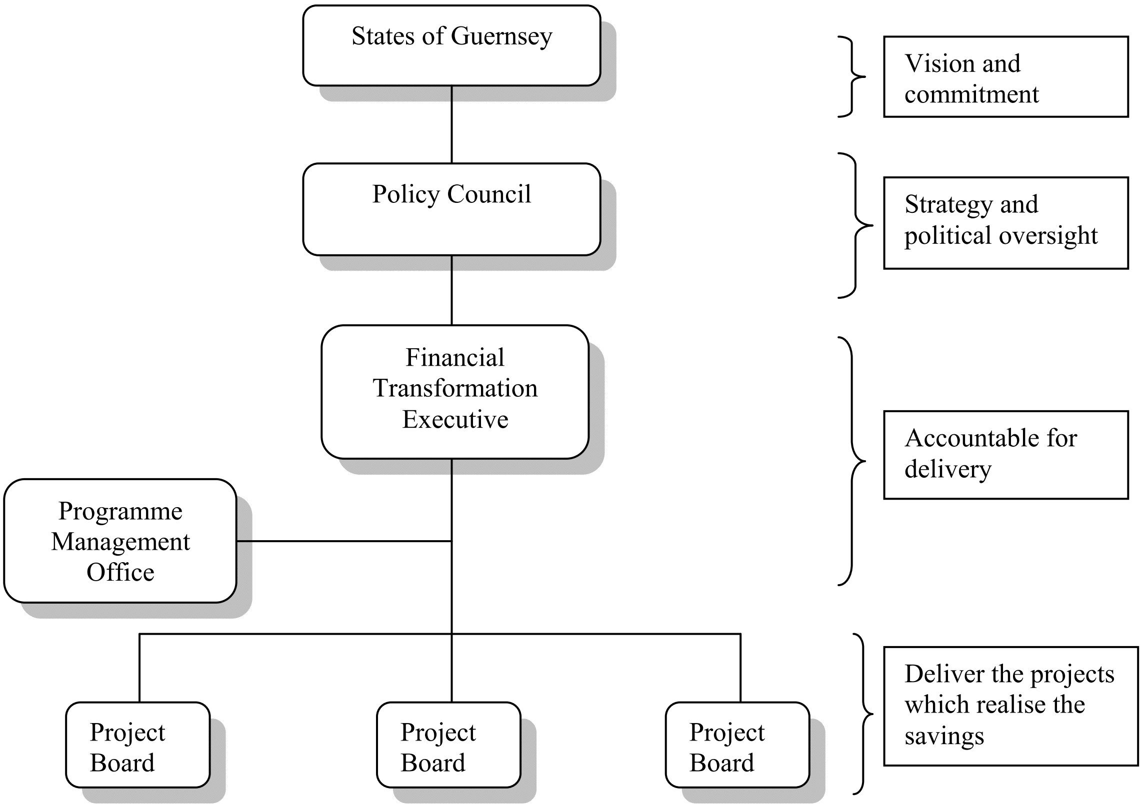
Experience in the delivery of such a fundamental change programme does not exist within the States of Guernsey at present and there would be considerable benefit from external support and expertise to guide any in-house team and help develop the skill set internally. Those best placed to deliver this support would be Tribal, because of the level of detailed work that they have undertaken to date and their knowledge of the people and systems across States Departments.

The Treasury and Resources Department considers that a Programme Management Office (PMO) should be established in order to manage the delivery phase of the FSR with resources from both Tribal and the States. This partnership approach will provide the best mix of local knowledge and specific programme expertise as well as facilitating a transfer of knowledge to the States so that, with time, less reliance will need to be placed on consultants.

The Department believes that the most appropriate way of paying for the delivery of the FSR is on a risk and reward basis meaning that Tribal would only get paid as and when results are delivered and savings banked. This approach, which is becoming a common approach to delivery of such programmes, provides the least risk solution to the States and appropriate incentive to the Tribal team to deliver. Tribal has made an offer of such a system based on several review points, from the completion of the detailed business case to the actual delivery of the savings, which would see them getting paid on a time and materials basis with a quarterly reconciliation to actual performance. The Treasury and Resources Department is in negotiation with Tribal over this offer with a view to getting the best possible deal for the States by ensuring that risk is appropriately shared and that the reward is proportionate. It should be noted that any reward fee paid for assistance in the delivery of the programme, in excess of the implementation costs already accounted for, will impact on the total net savings available to the States.

Governance

As mentioned above, the Finance Transformation Programme needs to be robustly governed. The Treasury and Resources Department recommends that a governance structure be implemented which assigns day to day responsibility for delivering the Programme to the senior leadership within the Civil Service. The proposed structure is represented visually below:



The proposed governance structure, including roles and responsibilities, would then be:

1. States of Guernsey

- Provide overall policy direction and commitment to the FSR programme;
- Make key decisions in the programme such as material capital items, policy changes and politically sensitive issues;
- Receive annual reports on the progress of the FSR delivery; and

- Delegate responsibility for the delivery of the FSR to the Policy Council.

2. ***Policy Council***

- Provide the political oversight and ownership to the programme;
- Receive regular progress reports from the Financial Transformation Executive;
- Delegate responsibility for the operational delivery of the FSR to the Financial Transformation Executive; and
- Act as sponsor for Reports to the States on progress.

3. ***Treasury and Resources Department***

- Responsible for managing the Fundamental Spending Review Fund as proposed in Section 11.

4. ***Financial Transformation Executive***

- Direct and oversee the delivery of the Financial Transformation Programme;
- Provide executive sponsorship and leadership across the public sector;
- Ensure that the Financial Transformation Programme is delivered to plan, budget and that benefits are realised;
- Approve business cases for progress or refer to Policy Council/States for political decision where appropriate; and
- Liaise with Project Boards on progress of projects and programmes.

5. ***Programme Management Office***

- Establishes the programme and project governance;
- Supports the implementation of the Financial Transformation Programme;
- Recommends the sequencing and timing of the overall programme work streams;
- Manages communication; and

- Provides support to Project Boards.

6. Project Boards

- Manage and deliver the individual projects to time and budget and to benefits realisation.

7. Departments

- Ensure that business cases within the Department are progressed and delivered;
- Provide adequate resources for research and implementation; and
- Recognise the need to prioritise and resource long term corporate initiatives over short term Departmental projects.

9. The Need for Investment

Throughout the FSR process, reference has been made to the need to invest in "building blocks" which will assist in:

a. Releasing the potential savings; and

b. Providing a solid foundation for establishing and embedding change.

The key areas of investment are around the financial management and human resources work-streams. These may be unlikely, in themselves, to yield tangible and material savings but they are vital pieces in the puzzle which enable the realisation of the wider savings within the programme. Without these enablers or "building blocks" some of the identified changes are unlikely to be achieved and progress with others will be much slower than anticipated.

For example, as part of the underlying governance recommendation, Tribal recognises the importance of modernising the accounting practices of the States and of adopting an internationally recognised accounting framework which is likely to cost in the region of £1.8million over five years. Implementation would enable the full cost of providing services to be readily seen which, coupled with a performance framework enables the link between inputs and outcomes to be transparent. Further, a resource accounting system supports better decision making through the availability of more accurate and complete information. Finally, it would make the accounts of the States comparable year on year and facilitate the measurement of delivery of FSR goals. This is seen as "*an essential and unavoidable step that must be taken to achieve the improvements required in the standards of financial management across the States*". The Treasury and Resources Department supports this move and recognises the imperative of implementing such a change.

Another key and material financial management enabler is to develop and improve the States integrated business system, SAP, to transform the way in which it operates and add new functionality enabling the replacement of existing systems and processes. This will support the modernisation of working practices but it is likely to cost in the region of £5million.

Likewise, there is recognition that the activities contained within the Human Resources work-stream are "*key enablers*" to delivering staff performance improvements and developments in management and capability which are necessary to deliver the recommended integrated Transformation Programme.

10. The States Strategic Plan

There is a close link between the FSR and the States Strategic Plan (SSP). One of the key recommendations of the phase 2 report is that the States articulate and communicate a vision and purpose and develop a medium term business plan and the Treasury and Resources Department welcomes the development of the SSP and the link between business and financial planning which is being introduced for the first time.

Additionally, the development of services which are prioritised through the SSP relies on the realisation of the **potential** savings which have been identified through the FSR process. The Treasury and Resources Department notes the intention of the Policy Council to use all of the savings realised in the first three years of the Financial Transformation Programme to fund new service developments but cautions that allocating resources before they have been realised could result in a requirement to amend plans in later years to reflect the savings actually delivered. The Department would also like to reiterate that the States is running a structural deficit and the significant value of allocating a proportion of the realised savings later in the programme towards closing this gap.

11. The Fundamental Spending Review Fund

As part of the 2006 Budget, the Restructuring and Reorganisation Fund was established by transferring £5million from the Contingency Reserve Fund. Access to the fund is only available to Departments to meet genuine spend to save initiatives, where short term investment will have long term advantages. The Treasury and Resources Department believes that there is no longer a requirement for this fund and that, as such, it should be renamed the "Fundamental Spending Review Fund".

Additionally, the Department believes that a one off transfer to the Fund should occur immediately totalling £10million which would allow the FSR implementation process to commence and cover the likely costs in the first two years until material savings begin to accrue. The £10million transfer will be taken from the General Revenue cash pool. However, this would be a short term loan and the amount will be returned over the five year period.

This fund will then be used to:

- Meet the costs of revenue and capital projects approved by the States of Deliberation and/or the Financial Transformation Executive;

- Receive all cash releasing savings generated through the FSR;

- Return the £10million "pump priming" funding to the General Revenue cash pool over the five year programme period;

- Transfer funds to General Revenue annually following the States Strategic Plan debate to fund the prioritised service developments; and

- Close the revenue deficit.

The States will be asked to decide, on an annual basis, the proportion of the net savings actually delivered which will be available to close the revenue deficit, repay the cash pool and fund any service developments.

The fund is expected to have a limited life and should be wound up following the five year programme with the remaining balance transferred to General Revenue.

12. Conclusions

The FSR has identified opportunities for the States to make significant savings to its revenue budget at a time when it is operating at a structural deficit. These opportunities should be embraced, but to do so requires a commitment to undertake a fundamental programme of change across the public sector.

In order to realise the majority of the potential savings, the States must move away from the current silo Departmental working towards a more corporate approach.

The States must also accept the need to invest substantially in financial management, systems and capital projects in order to access the full extent of the savings.

In order to complete the process started through the FSR, a delivery stage must now be embarked upon and a Financial Transformation Programme developed in order to deliver the £70million of savings identified.

13. Recommendations

The Treasury and Resources Department recommends the States to:

1. Endorse and support the principal findings and recommendations proposed by Tribal Consulting Limited in its Fundamental Spending Review Phase 2 report, which is attached to this Report.

2. Agree that the States principles for the Financial Transformation Programme, on a long-term and sustainable basis, will be as articulated in section 6 of this Report.

3. Direct the Policy Council to establish a States Financial Transformation Programme and adopt the proposed governance structure as set out in section 8 of this Report.

4. Direct the Policy Council to submit annual Reports to the States on the progress being made together with other relevant information in connection with the delivery of efficiency savings identified by Tribal Consulting Limited.

5. Note that those efficiency opportunities involving major costs or policy considerations will be referred to the States, by the appropriate Department or the Policy Council, for a decision.

6. Direct the Treasury and Resources Department to rename the *Restructuring and Reorganisation Fund* as the *Fundamental Spending Review Fund* with a sum of £10million to be transferred from the General Revenue cash pool to be used solely in connection with the delivery of opportunities in connection with Phase 3 of the Fundamental Spending Review, as set out in section 11 of this Report.

7. Endorse the decision of the Treasury and Resources Department to retain the services of Tribal Consulting Ltd, on a risk and reward basis, to assist with the delivery of the outputs from the Fundamental Spending Review, as set out in section 8 of this Report.

Yours faithfully

C N K Parkinson
Minister

(NB The Tribal Consulting Ltd Fundamental Spending Review: Phase 2 report and the Fundamental Spending Review: Phase 2 Annex, which are appended to this Report, are published separately.)

(NB The Policy Council recognises the key strategic need for the States to embrace the Fundamental Spending Review (FSR). Indeed it believes that this is one of the most important reports to come before the States in a long time and much of the legacy of this Assembly will be determined by how successful it is in implementing the recommendations of the FSR.

In stating this, the Policy Council does not underestimate the scale of the task nor the difficult political decisions which lie ahead. It is abundantly clear from the Report that the lion's share of the savings, which the Island needs, can only materialise if the States as a whole act first and foremost with corporate interests, rather than the narrower interests of any Departments or expressed through any Requête, in mind.

The timing of the debate of the FSR, at the same meeting as the States Strategic Plan (SSP), could not be better. The SSP will provide the backbone to the States corporate approach moving forwards while the FSR will help deliver resources both to continue essential services and to implement much needed new service initiatives.

In approving the Treasury and Resource Department's report, the States should be aware that the future will undoubtedly hold difficult and sensitive political decisions and that it will be necessary to resource the FSR initiative effectively in order to deliver the very considerable savings. However, the Policy Council believes that the States must fully embrace the FSR without delay and run it in close harmony with its SSP process.)

The States are asked to decide:-

Whether, after consideration of the Report dated 28th August, 2009, of the Treasury and Resources Department, they are of the opinion:-

1. To endorse and support the principal findings and recommendations proposed by Tribal Consulting Limited in its Fundamental Spending Review: Phase 2 report which is attached to that Report.

2. That the States principles for the Financial Transformation Programme, on a long-term and sustainable basis, will be as articulated in section 6 of that Report.

3. To direct the Policy Council to establish a States Financial Transformation Programme and adopt the proposed governance structure as set out in section 8 of that Report.

4. To direct the Policy Council to submit annual Reports to the States on the progress being made together with other relevant information in connection with the delivery of efficiency savings identified by Tribal Consulting Limited.

5. To note that those efficiency opportunities involving major costs or policy considerations will be referred to the States, by the appropriate Department or the Policy Council, for a decision.

6. To direct the Treasury and Resources Department to rename the *Restructuring and Reorganisation Fund* as the *Fundamental Spending Review Fund* with a sum of £10million to be transferred from the General Revenue cash pool to be used solely in connection with the delivery of opportunities in connection with Phase 3 of the Fundamental Spending Review, as set out in section 11 of that Report.

7. To endorse the decision of the Treasury and Resources Department to retain the services of Tribal Consulting Ltd, on a risk and reward basis, to assist with the delivery of the outputs from the Fundamental Spending Review, as set out in section 8 of that Report.

IN THE STATES OF THE ISLAND OF GUERNSEY ON THE 28th DAY OF OCTOBER, 2009

The States resolved as follows concerning Billet d'État No XXV dated 24th September 2009

TREASURY AND RESOURCES DEPARTMENT

FUNDAMENTAL SPENDING REVIEW

After consideration of the Report dated 28th August, 2009, of the Treasury and Resources Department:-

1. To endorse and support the principal findings and recommendations proposed by Tribal Consulting Limited in its Fundamental Spending Review: Phase 2 report which is attached to that Report.

2. That the States principles for the Financial Transformation Programme, on a long-term and sustainable basis, will be as articulated in section 6 of that Report.

3. To direct the Policy Council to establish a States Financial Transformation Programme and adopt the proposed governance structure as set out in section 8 of that Report.

4. To direct the Policy Council to submit annual Reports to the States on the progress being made together with other relevant information in connection with the delivery of efficiency savings identified by Tribal Consulting Limited.

5. To note that those efficiency opportunities involving major costs or policy considerations will be referred to the States, by the appropriate Department or the Policy Council, for a decision.

6. To direct the Treasury and Resources Department to rename the *Restructuring and Reorganisation Fund* as the *Fundamental Spending Review Fund* with a sum of £10million to be transferred from the General Revenue cash pool to be used solely in connection with the delivery of opportunities in connection with Phase 3 of the Fundamental Spending Review, as set out in section 11 of that Report.

7. To endorse the decision of the Treasury and Resources Department to retain the services of Tribal Consulting Ltd, on a risk and reward basis, to assist with the delivery of the outputs from the Fundamental Spending Review, as set out in section 8 of that Report.

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