



STATES OF GUERNSEY

Unbeatable services,
efficiently delivered

Fundamental Spending Review: Phase 2

JULY 2009



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Executive Summary

e1. Findings

The Fundamental Spending Review (FSR) considered the efficiency, effectiveness, and strategic alignment of the entirety of States expenditure.

The FSR examination of c£311m of annual States expenditure, encompassing all operational departments, has identified the potential to realise in excess of £70m of net savings in the revenue budget over a five year period. This equates to an average annual net saving of £14m.

Table 1: Total Revenue Savings

	YEAR 1 2010 (£)	YEAR 2 2011 (£)	YEAR 3 2012 (£)	YEAR 4 2013 (£)	YEAR 5 2014 (£)
OPENING BUDGET	311,000,000	307,892,000	304,348,000	299,515,000	289,556,000
Implementation Costs	1,355,000	626,000	640,000	356,000	327,000
Increase in Baseline Costs	1,695,000	1,379,000	1,086,000	634,000	629,000
TOTAL COSTS	3,050,000	2,005,000	1,726,000	990,000	956,000
GROSS SAVINGS	-4,803,000	-4,923,000	-5,919,000	-10,593,000	-10,637,000
NET SAVINGS	-1,753,000	-2,918,000	-4,193,000	-9,603,000	-9,681,000
Add back Implementation costs as one off	-1,355,000	-626,000	-640,000	-356,000	-327,000
REVISED BUDGET (For following year)	307,892,000	304,348,000	299,515,000	289,556,000	279,548,000
NET Savings against Baseline Year	-1,753,000	-6,026,000	-10,845,000	-21,088,000	-31,125,000
Cumulative net Programme savings	-1,753,000	-7,779,000	-18,624,000	-39,712,000	-70,837,000

These savings are real, cash releasing savings. These savings will directly impact the annual deficit currently being forecast. If pursued to delivery, these savings will put the States on a firm financial footing and secure a sustainable delivery path for future years.

The revenue costs (TOTAL COSTS) represent the expenditure required if the opportunities are delivered as part of an integrated programme and not the costs of managing each opportunity in isolation. 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.

e2. Recommendations

FSR Phase 1 identified 298 opportunities. FSR Phase 2 has investigated the strategic and financial value of these opportunities, consolidating them into 107 Summary Opportunity Reports (SORs), taking each to outline business case stage.

The States of Guernsey should now consider how the opportunities can be addressed and benefits maximised through a coordinated programme, and other targeted actions, to create and embed a new and sustainable way of managing finance.

Recommendation 1: Establish a States Transformation Programme

We recommend that, in order to realise the significant benefits identified by the FSR, the States of Guernsey establishes an integrated Transformation Programme, a fundamental part of which is a Financial Change Programme delivering the recommendations included in this report.



A Financial Change Programme within an integrated Transformation Programme will enable the organisation to be properly structured and balanced to enable efficiency to be both established and maintained and ensure that changes are embedded. It will also identify and exploit emerging synergies and ensure continued congruence with the overall objectives of the FSR.

The structure and expertise do not yet exist to establish the full Transformation Programme, however the imperative to deliver efficiencies remains. It is therefore recommended that whilst the Organisational Development (OD) structures are established to enable the integrated Transformation Programme to be implemented that the Finance Change Programme is initiated to manage and co-ordinate delivery of SORs and the breadth of activity to ensure their effective delivery.

Implementing the SORs on a project by project basis is not a viable option; it will not maximise the savings that can be achieved, nor will it support the organisational transformation required. The States neither has the organisational structure, nor the skills required to deliver this programme rapidly. Rather, it must be addressed in a measured and sustainable manner.

Whilst each opportunity in isolation has a reasonably short deliverable timeline, Table 1 indicates how these opportunities can be realised across the length of a 5 year programme. It should be noted that many of the larger efficiencies appear later in the programme, as they are dependent upon the establishment of the underpinning organisational changes upon which delivery relies.

Recommendation 2: Articulate and communicate a vision for the States

In addition to creating an integrated Transformation Programme, the States should also take a number of targeted actions.

Currently, there is little evidence of a single, unified vision and common purpose to which all departments and staff subscribe. Harmonisation of purpose will provide a 'philosophical framework' within which departments can operate and decisions can be made.

We recommend that the States define, document and communicate its vision and purpose. This will describe what the organisation wants to achieve, its aims and purpose and the values it will adhere to when delivering those aims. It will provide the 'golden thread' which runs from the States overall raison d'être, through strategy, operational plans, and individuals personal objectives.

Thereafter, the strategic / business planning process and corporate performance management framework, led by OD, will be the key tools to deliver and advance this recommendation.

Recommendation 3: Embed a sustainable way of working

We recommend that the States adopt key principles of effective governance¹:

- Definition, documentation and communication of decision making processes;
- Definition of criteria to distinguish between political and operational decisions;

¹ Governance describes the means by which an organisation is directed and controlled. It relates to the processes, policies and rules that set parameters and define behaviours. Only through effective operational and financial governance can a sustainable and financially viable way of working be maintained in future years.

- Commitment to a new 'core value' for the States that all decisions will be evidence based;
- Clarification of lines of accountability and responsibility along with available sanctions and incentives;
- Introduction of standardised systems and processes;
- Documentation and dissemination of operational rules and policies.

We have ensured that these principles are reflected within each of the SORs arising from the FSR.

We strongly support the States proposed move to internationally recognised accounting practices (such as IFRS) to achieve the improvements required in the standards of financial management and operational governance across the States. Effective financial governance and management are the principal enablers of sustainable progress for the States. They set and maintain the operational constraints and apply the rigour required for continued improvement.

e3. Conclusion

We would like to thank the officers, Deputies and partner agencies who have contributed to the FSR. Without their cooperation we would not have been able to provide such a comprehensive set of outcomes. Their continued support of the ideal is pivotal.

The FSR has identified real and significant opportunities to make material savings. Additionally, it has re-emphasised the potential to deliver a step change in the culture and operations of the States. Together these changes will embed an efficient and value driven way of working to ensure the continued viability of the States and the economic well being of the Island.

We have made a number of recommendations that will deliver proper financial governance, allowing departmental spending plans to be delivered effectively, efficiently and economically. If implemented, the States will be in a position to deliver zero based budgeting linking strategic plans to operational delivery whilst ensuring that departments are able to concentrate on service delivery.

The FSR recommendations are deliverable and offer the prospect of releasing a net revenue saving of at least £70m over a 5 year period. This is a real opportunity for the States to take a step change in making the delivery of unbeatable services affordable and sustainable.

We do not underestimate the quality of the services provided to the citizens of Guernsey. This quality is testimony to a history and tradition of hard work and expertise invested in services over the years. In the changing economic and fiscal landscape, the FSR and the subsequent integrated Transformation Programme offer a long term opportunity to maintain the unique and enviable position that Guernsey occupies and will enable the Island to continue to be independently minded and to strive for unbeatable services, efficiently delivered.

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1 Background and Context

1.1 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 (FSR) 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 reform².

1.2 Context

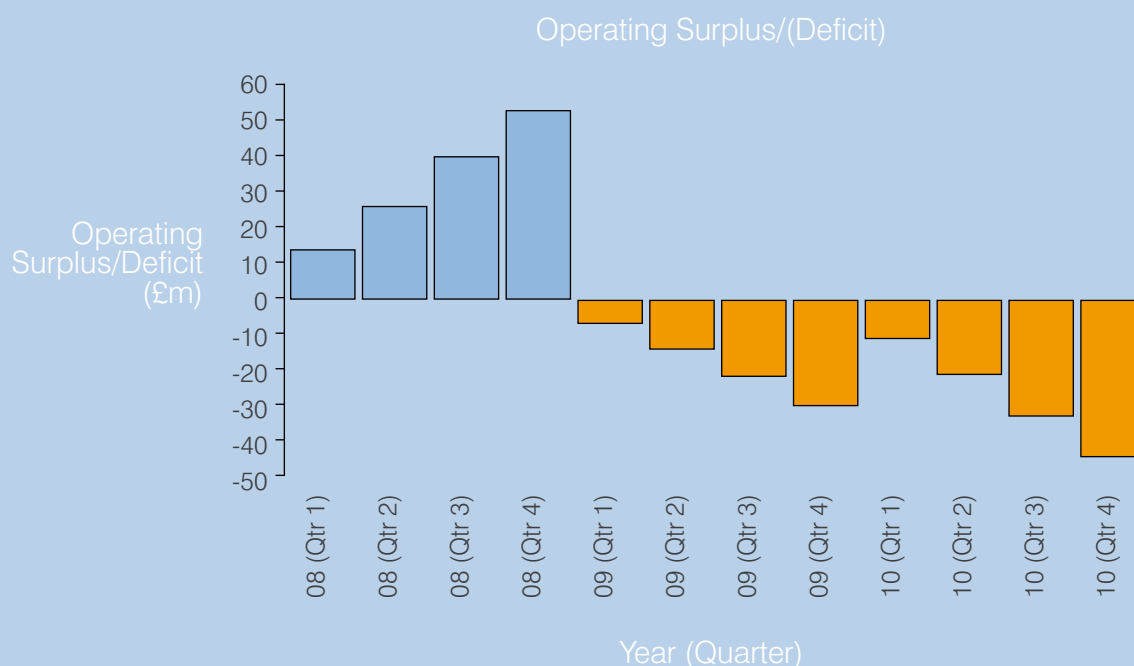
The Financial Imperative

The introduction of the Zero-10 tax regime coupled with the onset of the economic downturn may see a material shift in the fiscal and economic environment that the States operates in. A material reduction in tax revenue

income is forecast, meaning that maintaining expenditure at current levels may no longer be a sustainable option. The States is already currently operating at a deficit and is being sustained only by the depletion of reserves. These reserves may be exhausted by 2011. A very real and immovable financial imperative now exists.

If expenditure patterns are maintained at existing levels against expected tax revenue an operating deficit of £29m is predicted for 2010. If this deficit were generated equally throughout the year, this would equate to the creation of a deficit of £80k per day in 2010. This calculation, although rudimentary, starkly demonstrates the need to expedite the introduction of measures that both control and reduce States expenditure and is illustrated in *Figure 1: Annual Accumulation of Operating (Deficits)/ Surplus 2008 – 10*, below.

Figure 1: Annual Accumulation of Operating (Deficits)/ Surplus 2008 – 10



² 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 Operational Framework

The FSR has demonstrated that the States of Guernsey does not function as a single corporate entity. Policies set at the corporate centre are not uniformly or consistently applied across all departments, resulting in a number of distinct operational silos. As a consequence operational best practice is not captured or adopted by all departments, and economies of scale are forfeited. Additionally, in some instances, departmental actions in pursuit of local departmental gain run contrary to best practice. The result of this silo working accounts for 73% or £51m of the overall efficiencies identified by the FSR.

In the past an abundance of resources has meant there has been little imperative to promote and enforce rigorous budgetary management and control. The States has not had to make fundamental economic choices about the allocation of resources; this absence of challenge and competition for resources has created a culture where there has been little need to demonstrate the efficacy of expenditure.

These combined factors have a direct and material effect on how efficiently the States of Guernsey's resources are used. This cannot be sustained.

1.3 Objectives of the FSR

The objectives of the FSR 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 contribute to the delivery of the States Strategic Plan³;
- 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.

However, the States has also been clear in stressing that the search for efficiency opportunities is not incompatible with a desire to deliver unbeatable services. Instead it represents an opportunity to ensure services are efficiently delivered by:

- 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 FSR 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.

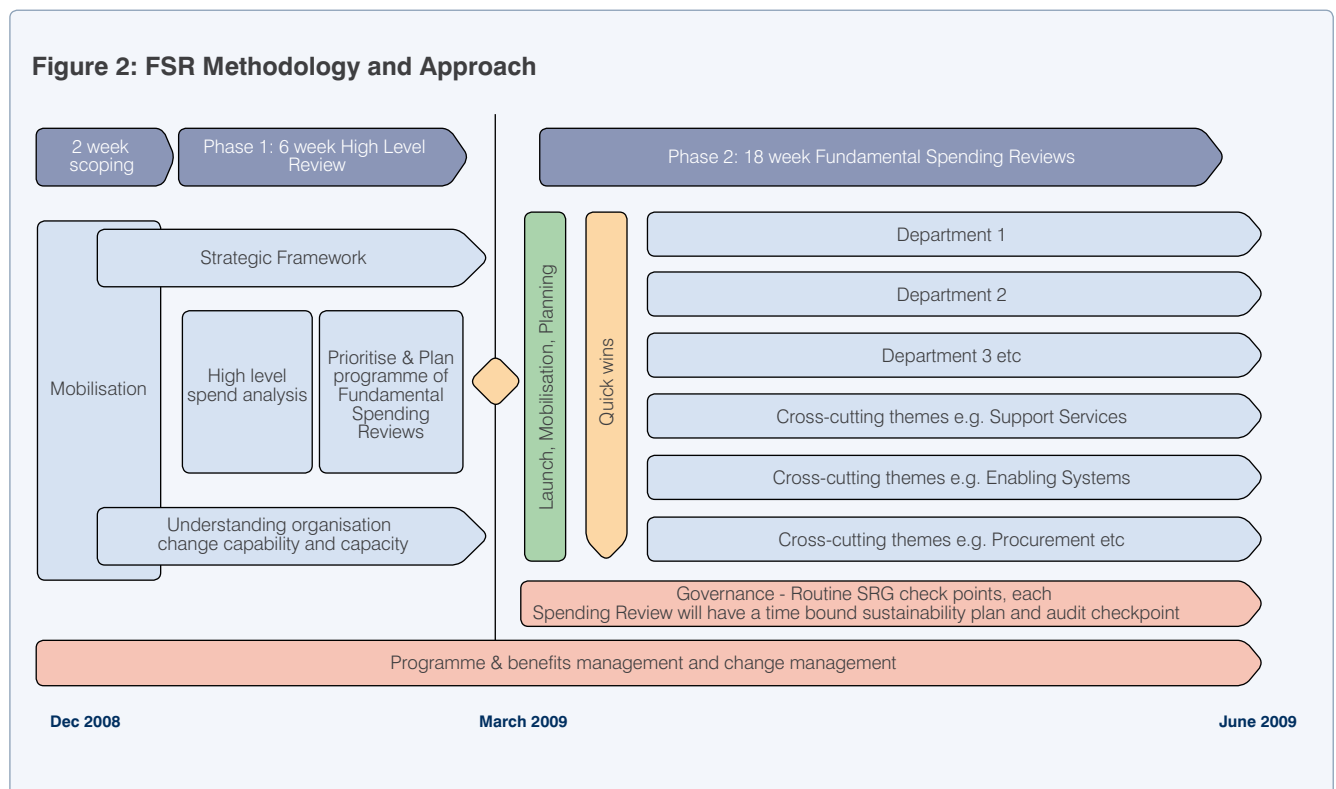
The outputs from the FSR will enable budgets to be realigned to support the efficient delivery of essential services across the States, and provide improved information for decision making.

Above all, the FSR is an essential corporate initiative that will help ensure the future economic well being of the States of Guernsey.

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1.4 Methodology and approach

The figure below shows the overall methodology for the FSR.

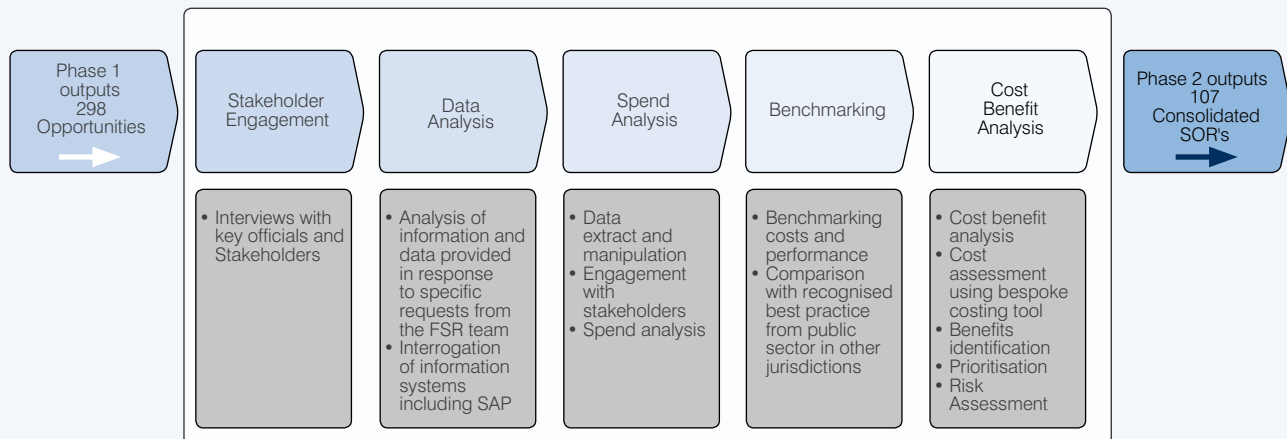


Phase 1 of the FSR delivered a high level States wide review, aimed at identifying opportunities to progress the four FSR objectives. Phase 1 identified 298 potential opportunities for improvement, as reported to the Treasury and Resources Board in March 2009.

Phase 2 of the FSR has examined each of the 298 opportunities to confirm their potential to support delivery of the four FSR objectives. To facilitate this, the initial opportunities were filtered and grouped into key areas for investigation. The Tribal team investigated each of these in more detail, gathering the information required using a variety of techniques as illustrated in figure 3.

³ The Government Business Plan, in place when the original FSR objectives were set has been withdrawn. It will be replaced by the States Strategic Plan in September 2009.

Figure 3: FSR Phase 2 Approach



The output from Phase 2 has been the completion of 107 Summary Opportunity Reports (SORs).

Each SOR confirms:

- Whether a particular opportunity does in fact exist;
- The rationale for its pursuit;
- Benefits, cashable and non-cashable of successful intervention;
- Costs associated with progressing the opportunity;
- Milestones or stages of an implementation project;
- Key people/stakeholders that should be involved;
- The feasibility of delivery;
- Risks associated with it, and;
- Priority it should receive within any co-ordinated Transformation Programme.

All 298 of the originally identified opportunities are covered within the SORs.

In order to provide an evidence based assessment of the likely level of savings available to the States, it has been necessary to identify the full range of opportunities for efficiency improvements and cost reduction that are available. We acknowledge that some of these opportunities have already been recognised by departments, and in some case efficiency projects are already underway. The savings identified in this report relate to those opportunities that are yet to be realised by these initiatives and are therefore “available” to the States.

We would like to thank the officers, Deputies and partner agencies who have contributed during the FSR. Without their continuing cooperation we would not have able to provide such a comprehensive set of outcomes.



2 FSR Phase 2 Findings

2.1 Financial Headlines

The 298 opportunities identified in FSR Phase 1 resulted in 107 Phase 2 SORs. The SORs are either:

- Department specific i.e. originating and impacting an individual department; or
- Cross cutting i.e. those that impact functions or operations common to some or all departments.

The SORs provide sufficient detail to enable an informed decision to be made about whether the opportunity should be pursued and advanced to the next stage – developing a full business case.

The following data⁴ summarises the financial content of the 107 SORs. The SORs capture costings consistent with the requirements of a strategic level business case and the costs incurred or avoided as a direct result of pursuing the identified opportunities.

The Revenue Budget

Table 1: Total Revenue Savings

	YEAR 1 2010 (£)	YEAR 2 2011 (£)	YEAR 3 2012 (£)	YEAR 4 2013 (£)	YEAR 5 2014 (£)
OPENING BUDGET	311,000,000	307,892,000	304,348,000	299,515,000	289,556,000
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Cumulative net Programme savings	-1,753,000	-7,779,000	-18,624,000	-39,712,000	-70,837,000

The SORs illustrate that the States can achieve an average annual saving of >4% of the revenue budget.

Total savings over the five year period of £70m equate to an average annual net saving of >£14m p.a.

The revenue costs associated with the opportunities show relatively small incremental increases over the 5 year period. However, the savings attached to the opportunities over the same period show a five-fold increase. This demonstrates the increasing value of the Transformation Programme over time. Furthermore if, as we recommend, these opportunities are addressed as a consolidated, Financial Change Programme, linked to a Transformation Programme, the costs associated with their delivery will be minimised.

⁴ All financial data is presented in accordance with the States budgeting rules.

There is a demonstrated systemic tendency for the appraisal of the costs and benefits associated with projects to be overly optimistic. Many project parameters are affected by optimism, and historically appraisers have tended to overstate benefits, and understate timings and costs. To redress this tendency, the methodology we have used for cost / benefit analysis makes explicit adjustments for this bias. This takes the form of systematically increasing estimates of the costs and decreasing the estimated benefits.

This adjustment for optimism bias combined with the positive impact on costs available through a Transformation Programme means that the net revenue saving of £70m over 5 years is achievable.

The Capital Budget

Table 2: Total Capital Savings

	YEAR 1 2010 (£)	YEAR 2 2011 (£)	YEAR 3 2012 (£)	YEAR 4 2013 (£)	YEAR 5 2014 (£)	Total
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	-2,414	-5,028	1,576	770	330	-4,766

*Capital savings include receipts

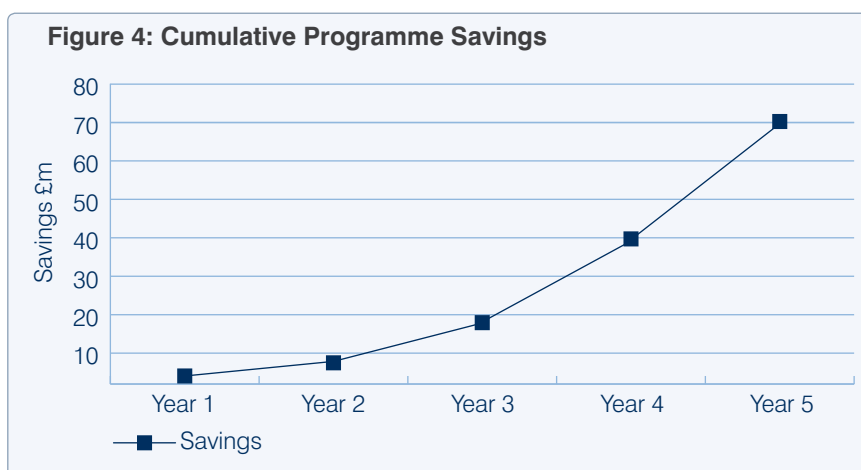
The SORs identify a net capital investment of £2.4m in Year 1 (2010). When compared to the net revenue saving identified in the same period this produces a potential return of investment (RoI) of 72% for the Financial Change Programme. By 2014 the net capital investment resulting from the FSR has reduced to zero against net revenue saving of £9.6m.

The capital investment required in support of the FSR programme in 2010 represents only 9% of historic levels of total annual capital budgets (of circa £50m). By 2014 this will have declined to less than 1%.

The capital expenditure identified is primarily in support of key business enablers, those items that will provide the operational infrastructure to allow the States to introduce new and efficient ways of working and will facilitate improvements to the services offered to the public. Key items include investments in strategic asset management, SAP and IT infrastructure.

Cumulative Programme Savings

The following chart illustrates the generation of savings over the 5 year programme.



2.2 Operational Headlines

The FSR Phase 2 confirmed a number of underlying weaknesses in the broader operational framework of the States. These must be addressed as part of a fundamental organisational review to ensure change is both implemented and embedded. For example governance, decision making and budgetary control and management as shown in the table below.

Table 3: Operational Headlines

Theme	Findings
Unified purpose	<ul style="list-style-type: none"> No recognised corporate vision, purpose or identity Departmental, rather than corporate, cultures exist Staff do not identify with the States as a corporate entity Staff are unable to contextualise their roles and relationships with other departments
Evidence-based decision making	<ul style="list-style-type: none"> Operational business decisions are frequently subjective rather than objective Evidence is not gathered and presented in a consistent manner The true cost and benefits of proposals, as well as the impacts and associated risks are not understood Lack of performance measures and monitoring Limited evidence of shared concept of Value for Money
Clear and transparent decision making process	<ul style="list-style-type: none"> Decision making processes are poorly defined Lack of clear trigger points, timings and avenues for progression and escalations Lack of clarity about the types of decisions that can be made in each decision making forum
Corporate Services	<ul style="list-style-type: none"> Departments are unwilling to relinquish control and delivery of non core, support services to corporate units Few Service Level Agreements exist between central units an departments Central units have limited authority to mandate policy and procedures The devolved funding model for the delivery of support services is often used inappropriately
Operational governance	<ul style="list-style-type: none"> Absence of rules and procedures that apply across the States to all departments equally No ability to incentivise or deter non compliance to corporate policy and procedures
Communication and customer perception	<ul style="list-style-type: none"> Inherent resistant to change at both departmental and individual level No dedicated specialist Communications functions No customer feedback sought; customer feedback not used to inform service planning and delivery

3 The Way Forward

3.1 From Report to Reality

The FSR Phase 2 has successfully consolidated, assessed and prioritised the 298 opportunities for improvement identified in Phase 1. The 107 SORs identify the potential to reduce expenditure over the next 5 years by £70m.

However, the successful implementation of these opportunities, converting them into real world outcomes which both ensure the sustainability of States finances and benefit the economic wellbeing of the people of Guernsey, is dependent upon the next steps taken by the States.

We believe that there are a number of considerations associated with each of the four objectives of the FSR that are crucial to secure the value for money and efficiency outcomes the States is seeking; these are set out below:

Objective 1: Ensuring that departmental spending plans provide for the most efficient and effective delivery of services

- Make a commitment to a States wide 5 year programme and the introduction of year on year efficiency targets for all States departments;
- Accept the need for reinvestment in order to realise further efficiencies.

Objective 2: Ensuring that departmental services are prioritised effectively and contribute to the delivery of the States Strategic Plan

- Articulate and communicate a vision for the States (see Section 4);
- Re-align departmental budgets, to reflect the re-freshed States Strategic Plan (3) and the outputs of the FSR Phase 2;
- Develop a medium term business plan (see Section 4).

Objective 3: Ensuring that departments are only engaged in delivering essential services that cannot or should not be provided by the private sector

- The pursuit of SORs to detailed business case stage will examine and consider the appropriateness of those essential services that may be delivered by the private sector.

Objective 4: Embedding 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

- Introduce a States wide, integrated Transformation Programme; an initial component of this Transformation Programme will be the Financial Change Programme charged with managing and coordinating the SORs identified by the FSR Phase 2;
- Embed a sustainable way of working (see Section 4); ensuring that effective operational governance is in place;
- Introduce a performance management framework so that departmental inputs, outputs and outcomes are measured, baselined and used to develop and monitor a suite of value for money indicators.

Developing a Transformation Programme

The FSR process has effectively identified what the key opportunities for efficiency and improvement are. In this section we look in more detail at how the opportunities can be progressed and their benefits maximised through an integrated Transformation Programme.

The first step in any transformation process is building and articulating the case for change. The FSR has, very effectively, made the case for change. It has confirmed that the States of Guernsey needs to plan and execute a Transformation Programme in order to:

- Establish a value for money baseline which links the outcomes achieved by Departments and Service Areas to the financial inputs required to achieve them;
- Realise £4.8m efficiencies in Year 1, and be prepared to re-invest an appropriate proportion of savings towards delivery of an efficiency programme;
- Realise average annual savings of at least 4% of the revenue budget over a 5 year efficiency cycle;

- Stabilise budgets;
- Reduce future inflationary effect on taxation;
- Ensure that service standards are appropriate, affordable and efficiently delivered.

To ensure that there is the required level of commitment to corporate plans and delivery of efficiencies we propose the following governance arrangements to deliver the recommendations of the FSR.

The States' Transformation Programme will need to be governed robustly. Since the intention is to transform the organisation, the underlying governance should involve the organisation's senior leadership. Furthermore the building of a portfolio of change projects should be seen as an investment by the organisation, and managed as if it were an investment portfolio.

The figure opposite illustrates the proposed governance arrangements, showing the core relationships, with a clear linkage between setting the organisational vision and strategy and its realisation via a portfolio of change projects.

'The FSR has, very effectively, made the case for change.'

Figure 5: Financial Change Programme – Governance Arrangements

Responsible for:

- Providing political oversight
- Ensuring alignment with States vision and strategic plan
- Providing political sponsorship and leadership across the organisation

Vision

Defines the future vision and sets the strategy to achieve it.

Responsible for:

- Directing & overseeing delivery of the Financial Change Programme
- Ensuring delivery of the State's medium term ambitions as set out in the strategic plan
- Providing strong executive sponsorship and leadership across the organisation
- Overseeing delivery of Financial Change Programme to plan, budget & benefits realisation

Drives delivery

Manages the delivery packages

Responsible for:

- Delivery of individual projects to plan, budget & benefits realisation

Delivery vehicles

Implement the new capabilities
Realise benefits and deliver the strategy

'A portfolio of change projects should be seen as an investment by the organisation.'



The role of the Transformation Board is to agree each detailed business case as it is presented and approve delivery of each work stream, thus ensuring delivery of viable efficiencies that have a positive effect and meet the overall aspirations of the Transformation Programme to which it is subordinate.

Delivering these projects within an integrated and coherent Transformation Programme (using effective project and programme management techniques) will ensure this target is exceeded and that the organisational transformation required is delivered. A Financial Change Programme, as a part of an overall Transformation Programme, will identify and exploit emerging synergies, reducing overall revenue costs whilst ensuring continued congruence with the overall objectives of the FSR.

3.2 Recommended Work Streams

Introduction

The consolidation process undertaken as part of FSR Phase 2, has confirmed that the identified opportunities fall into two basic categories:

- Department specific i.e. originating and impacting an individual department; or
- Cross cutting i.e. those that impact functions or operations common to some or all departments.

We recommend that the Financial Change Programme encompasses opportunities from both categories organised in a series of 7 work streams as illustrated in the figure below.

Figure 6 – Financial Change Programme – Work Streams

7 Interwoven workstreams will enable the States to ensure they offer
“unbeatable services, efficiently delivered”



If a potential project does not integrate with one or more of these work streams, its legitimacy within the Financial Change Programme will be challenged.

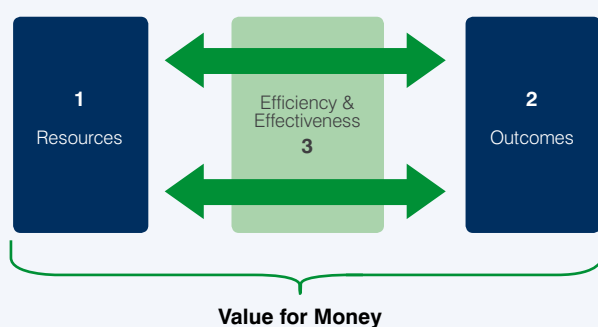
In the remainder of this section we identify the recommended work streams, the rationale for their selection and how they will underpin the delivery of the core objectives of the FSR.

Work Stream 1: Value for Money and Efficiency

Value for Money (VFM) means that public money and resources are used in the most efficient and effective way to deliver the stated outcomes of the States of Guernsey. In practice this means underpinning service delivery with sound financial and performance management processes, to continually assess whether Guernsey gets the most out of the money it invests and the activities it undertakes.

The activities and analysis carried out in FSR Phase 1 highlighted an opportunity to establish a VFM baseline for States' services, and develop and implement a States-wide VFM Strategy. In Phase 2 we have been able to confirm that whilst some departments are good at evaluating their inputs and resources, there is currently a gap in managing overall VFM, specifically the extent to which departments review and manage both what they spend and the quality of the outputs they deliver for that level of spend. This is illustrated in Figure 7 below.

Figure 7: VFM - Linking Inputs to Outcomes



- 1 Departments are good at focusing on what they spend and the level of resource they have
- 2 Outcomes and performance measure; i.e. evaluating the quality of services customers receive are less well developed
- 3 This makes it difficult for the States to ensure resources are used efficiently and effectively so that it maintains good value for money in meeting the needs of Guernsey's citizens.

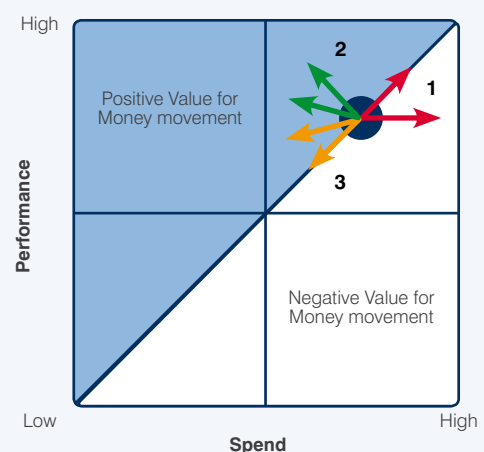
The existing change initiative 'Developing the Public Sector' has both performance management and efficiency at its core and has been viewed positively by those engaged with it. We commend this initiative. However, take up and engagement is varied across departments. We recommend that the Value for Money and Efficiency work stream is applied across all departments, furthermore we believe that the 'Developing the Public Sector' initiative should be the vehicle upon which Value for Money opportunities are delivered.

The new and evolving financial climate has a sizeable impact on the States' mindset for investing in service delivery. Historically, resources available to deliver services exceeded required levels of funding, consequently encouraging services to continuously invest to drive forward performance improvement.

The changing financial climate is now driving different priorities for States' services. In the main, services will now need to be delivered at a lower cost, whilst maintaining or (in some cases) improving levels of service performance. This is the means of adding the economic dynamic to services which are currently provided efficiently and effectively. However in some instances, the States may even be forced to cut some elements of service delivery and performance to achieve the savings it requires.

This is illustrated in Figure 8 below.

Figure 8: VFM Based Decision Making



- 1 Traditionally, service spend has been increased overtime to increase service provision and performance
- 2 In the future, the States will need to find ways of maintaining or increasing performance whilst reducing the spend base
- 3 In some instances, the States may need to sacrifice some areas of performance to reduce the spend base and meet budget deficits. However, this cannot be done without a comprehensive understanding of how services currently perform and spend money, and therefore what could be sacrificed.

This cannot be done without a firm and comprehensive understanding of how efficiently and effectively departments currently spend money, in return for the performance and quality of service delivery they achieve. A key objective will be to establish a baseline of departmental VFM and implement a States-wide VFM Strategy that will enable the States to prioritise the services and departments with the biggest potential to deliver savings, alongside an understanding of what the potential value of those savings might be.

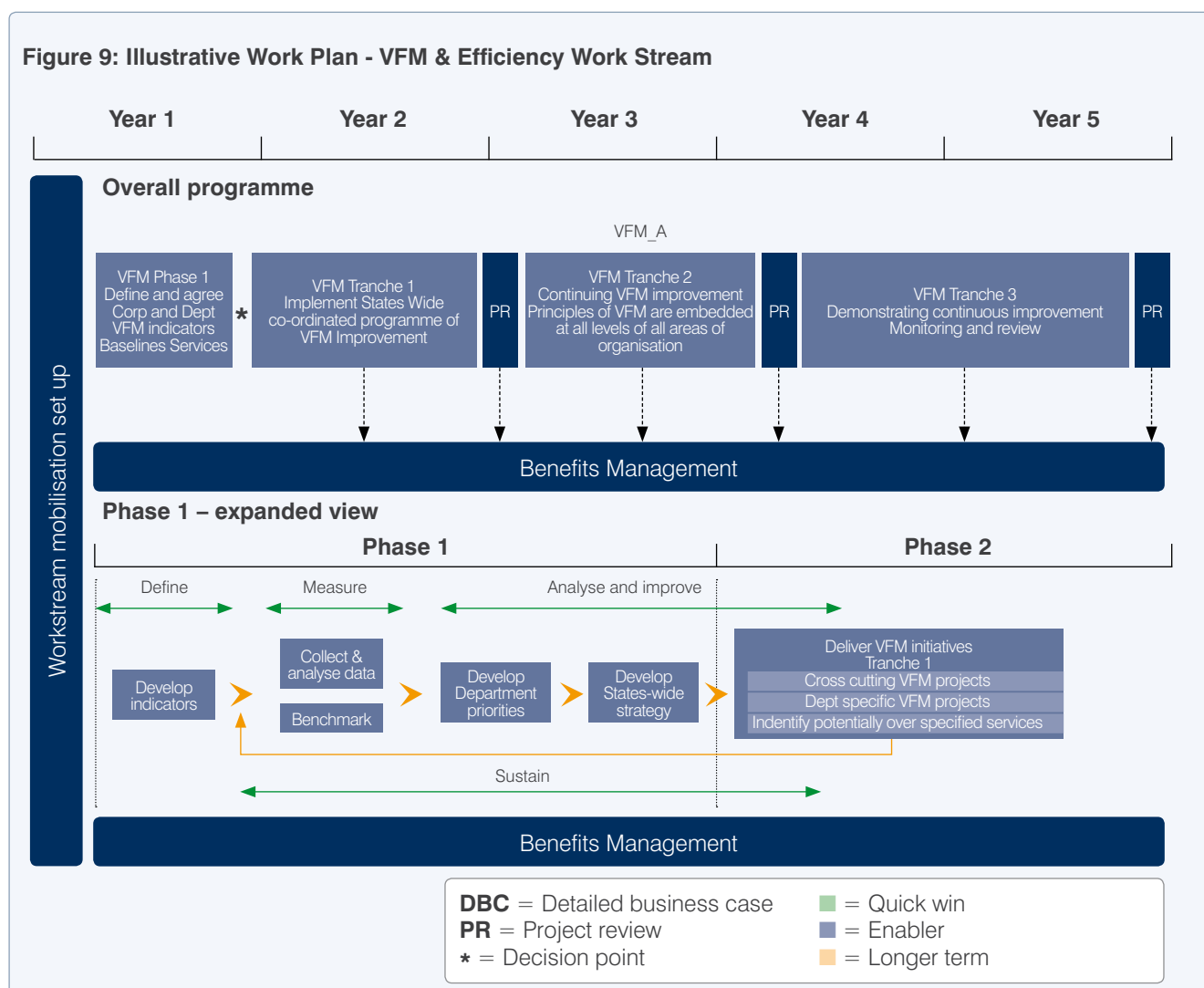
Key activities will involve working with departments to manage decisions about where to make savings and reduce risk:

- Increased control and awareness for operational managers and senior managers over the services they are accountable for;
- Consistent engagement of customers in the development of services through an awareness of their effectiveness, and performance outcomes designed around the end user;

- Clarity over how much money services across each department are spending and the outcomes they achieve in relation to their spend;
- Knowledge of where the 'success stories' for VFM are, which can be promoted more widely across the States;
- Established and accepted mechanisms to provide a challenge to services and departments that appear higher spending and / or lower performing;
- Momentum to develop and progress continuous VFM initiatives and budget management, through an established system that can be seen to benefit the way services are run.

An illustrative plan for this work stream is shown in the figure below.

Figure 9: Illustrative Work Plan - VFM & Efficiency Work Stream





Back office and support functions (Work Streams 2 – 6)

Back office and support functions are widely acknowledged within the UK public sector as a significant source of potential expenditure savings. A similar situation exists within the States of Guernsey, and includes the following areas:

- Property & asset management;
- Financial management;
- HR;
- ICT;
- Procurement.

The FSR has identified some key challenges which threaten the potential to realise the full potential of these efficiencies across the States, particularly when compared to private sector experience:

- The highly fragmented nature of the States, with a large number of individual departments and service units often having their own back office operations and IT systems and processes;
- The lack of robust and consistent management information on States spending on back office operations and support functions, making it hard to identify what the costs associated with them actually are. This makes it difficult to establish trends, make comparisons and manage down costs. What is not measured well, will not be managed well;
- The limited mechanisms for reviewing the organisation's operational effectiveness in respect of back office and support functions. This means that operational costs and processes get limited independent scrutiny and cross-questioning;
- The cost penalty from the lack of standardisation, simplification and sharing of back office operations and support functions across the States. Devolution of delivery can provide greater responsiveness in the provision of services, but unchecked proliferation of separate back office operations, support functions and IT systems and processes can and does lead to significantly increased costs.

These challenges will be addressed as part of the recommended Financial Change Programme.

Work Stream 2: Property Rationalisation and Asset Management

There is significant scope for the States to utilise its portfolio of land and property holdings more efficiently and effectively.

As an illustration of this, an analysis of 8 office locations, between them housing around 15% of the States workforce, showed that office based staff in the States have on average twice the amount space per person as public sector workers in the UK.

'There is significant scope for the States to utilise its portfolio of land and property holdings more efficiently and effectively.'

Rationalisation of these 8 properties alone has the potential to:

- Generate average revenue savings, in excess of £685,000 per year, as a result of reduced maintenance, operational and leasing costs for property;
- Generate capital receipts in excess of £12m from the disposal of surplus property (all or a proportion of which can be reinvested in the portfolio);
- Generate additional revenue income of at least £370,000 per year from the commercial leasing or sub-letting of vacated property.

Further savings will be available if this opportunity is extended into a co-ordinated programme of property rationalisation across the States.

In order to secure these savings the States will need to:

- Empower States Property Services (SPS) to drive the efficient use of property across the whole of the States. Through a small strategic team, it will work closely with other Treasury and Resources teams as well as with all States departments and, where necessary, draw on private sector expertise. Its main roles would be to provide:
 - A strategic overview of rationalisation and disposal;
 - Property standards and advice;
 - Coordination and oversight of property performance;
- Ensure that in producing new spending plans, it takes steps to ensure its capital investment plans deliver a rationalised and more efficient estate;
- Be more consistent and transparent in the data it collects and publishes in relation to property management and usage. In particular, departments should be required to publish information about the core, surplus, and intermediate property assets held. A suite of property related value for money indicators should be developed and actively used to inform decision making.

This work stream will also enable the States to develop a strategic approach to asset management in order to ensure more efficient and commercial operation of the assets it holds. Strategic asset management can be defined as the activity that seeks to align the asset base with the organisation's corporate goals and objectives. It ensures that the land and buildings asset base of an organisation is optimally structured in the best corporate interest of the organisation concerned.

Based on the levels of current spending on property maintenance and management identified in FSR Phase 2, we believe that such an approach has the potential to release efficiencies worth as much as a further £2m per year, in addition to any capital receipts from the disposal of surplus assets.

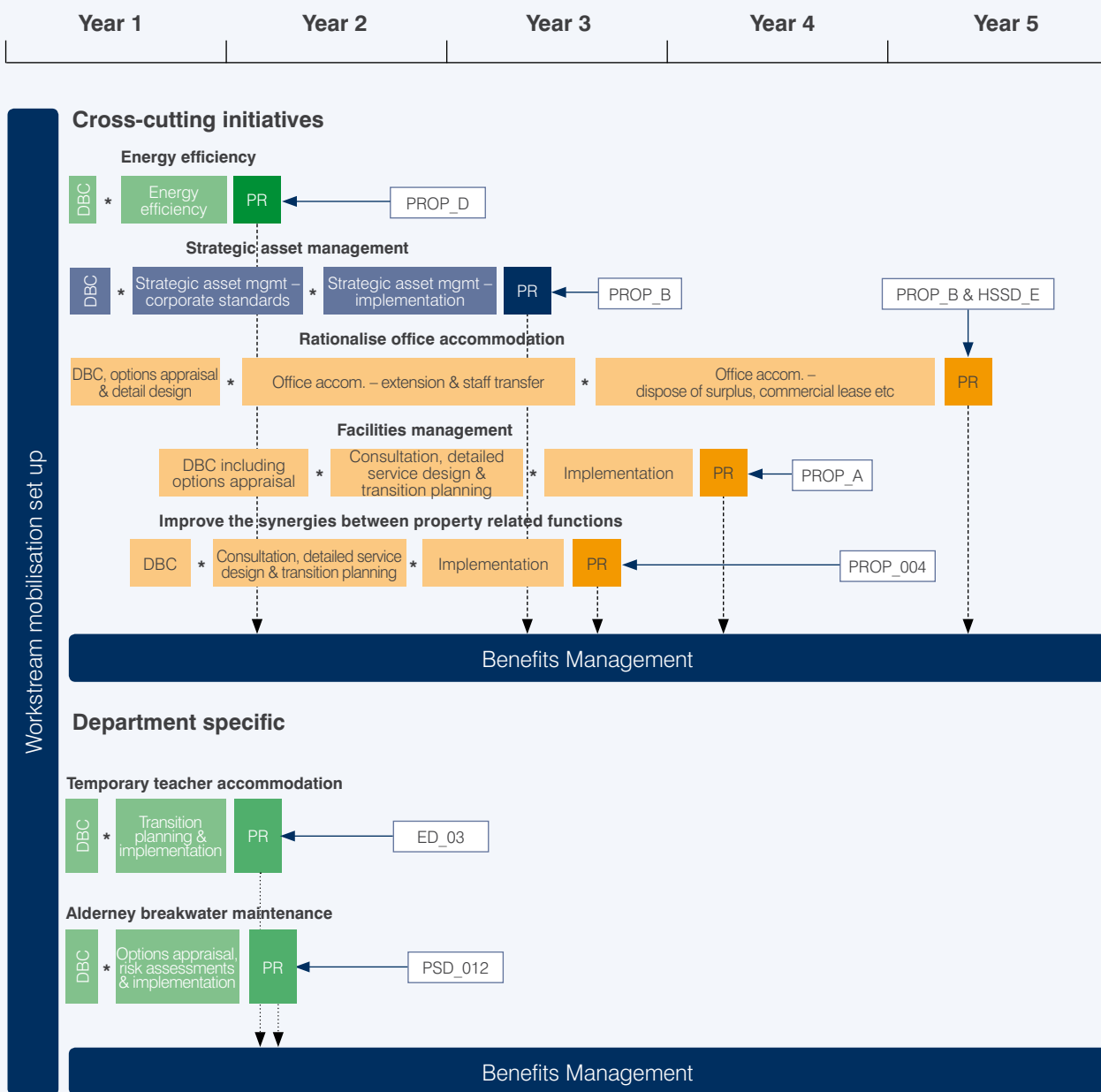
This is not however, a mandate for the wholesale disposal of Government assets – rather this work stream should challenge departments to demonstrate the efficient management of the assets they hold, and to help free up resources for important frontline service delivery.

The operational assets that must be included in any strategic approach to asset management fall into five main categories:

- Land and buildings used to deliver a direct service to the public (e.g. schools, hospitals, elderly persons' homes, the leisure centre and public parks);
- Assets that support service delivery (e.g. Charles Frossard House, other administrative offices, and vehicle depots);
- States owned social housing;
- Non-operational property (e.g. surplus property awaiting sale or commercial and industrial property);
- Transport assets (e.g. highways, ports, municipal airports, bus stations, car parks and park-and-ride).

An illustrative plan for this work stream is shown in the figure below.

Figure 10: Illustrative Work Plan - Property and Asset Management Work Stream



DBC = Detailed business case
PR = Project review
***** = Decision point
■ = Quick win
■ = Enabler
■ = Longer term

Work Stream 3: Financial Management

Effective financial governance and management are the principal enablers of sustainable progress for the States. They set and maintain the operational constraints and apply the rigour required for continued improvement.

The analysis of financial management across the States as part of the FSR has highlighted that the four tiers of financial operations (systems, processes, people and reporting) within the States are fractured and as such pose a significant operational risk to the viability of the States as an organisation.

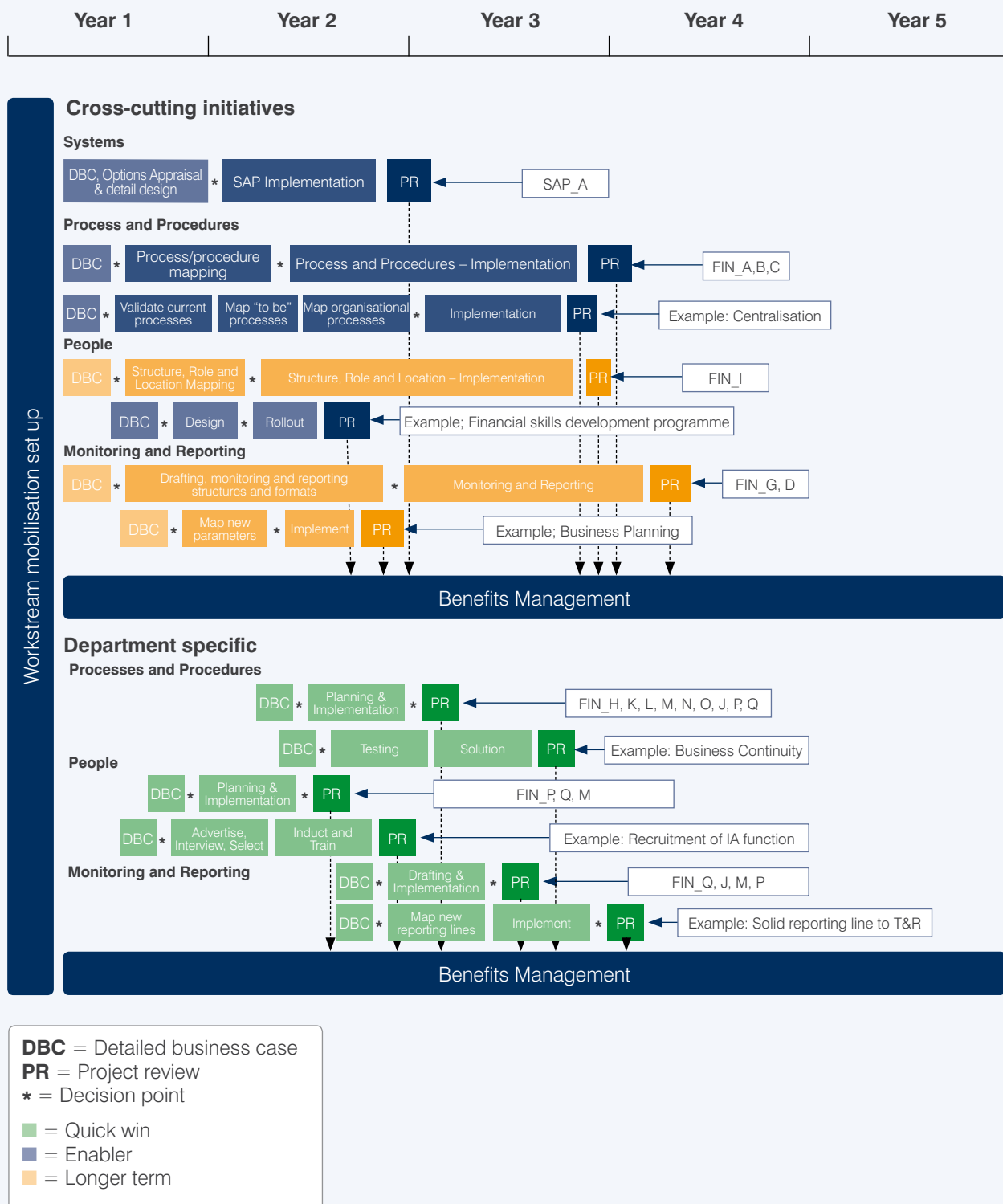
- **Tier 1: Systems:** Whilst SAP was introduced effectively and in a timely manner it is under utilised, lacks configuration and does not use the integrated suite of modules available, meaning data is inaccurate, incomplete and inaccessible. Addressing these weaknesses will form the foundation for other improvements in financial management;
- **Tier 2: Process and procedures:** There are no generally accepted ways of working across the States. They are not clearly defined and they cannot be mandated across the States. These non standard processes are inefficient and often duplicated, again leading to incomplete data that is not fit for purpose;
- **Tier 3: People:** There is a shortage of appropriately skilled finance staff to deliver the standard of service required. Competition with the finance industry and poorly developed training programmes have led to a distinct skills gap;
- **Tier 4: Monitoring and reporting:** There is an absence of robust and systematic monitoring of financial performance. There is a lack of effective challenge and thus a lack of transparency of the true financial position of the States. This is true of both management and financial accounting. The move to internationally recognised accounting practices (such as IFRS) is an essential and unavoidable step that must be taken to achieve the improvements required in the standards of financial management across the States.

‘Effective financial governance and management are the principal enablers of sustainable progress for the States.’



The Financial Management work stream will systematically address these weaknesses, identifying key dependencies and relationships and mapping a logical path for project completion. An illustrative plan for this work stream is shown in the figure below.

Figure 11: Illustrative Work Plan - Financial Management



Work Stream 4: ICT

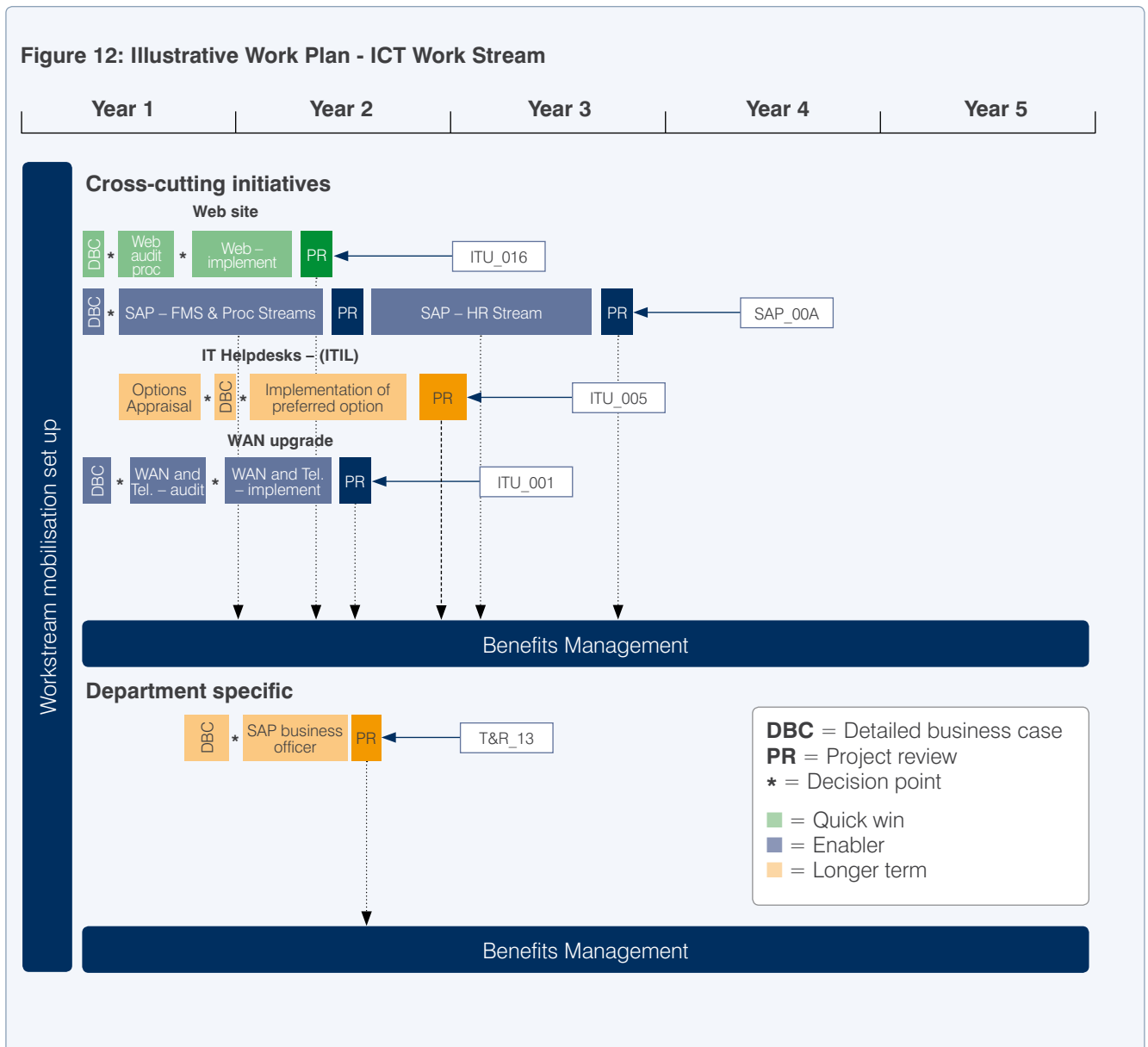
The FSR Phase 2 has confirmed that ICT is a significant source of potential savings, both directly as a result of a more efficient utilisation of existing systems and indirectly as a change enabler. FSR Phase 2 has identified net revenue savings from this work stream in excess of £1.2m per year.

The key focus of this work stream will be to:

- Improve the collection, reporting, benchmarking and review of data on IT spend across departments;
- Improve the take up and use of key corporate systems such as SAP by departments;
- Implement portfolio management processes to prioritise projects and resources and to reduce overlap and duplication in IT-enabled change projects;
- Promote greater standardisation and simplification of IT systems, desktops, infrastructure and applications across departments;
- Address the lack of consistent management information and comparator data which can be used as a mechanism for driving performance;
- Increase the consistency in infrastructure, standards and applications across departments.

An illustrative plan for this work stream is shown in the figure below.

Figure 12: Illustrative Work Plan - ICT Work Stream





Work Stream 5: HR

Staffing costs represent over 50% of revenue expenditure in 2008. It is essential that robust HR policies, systems and procedures are in place to support managers, to effectively manage this resource.

The FSR Phase 2 has identified net revenue savings of £1.5m from HR related opportunities. However, the activities of this work stream are key enablers to provide a platform for the improvements in staff performance, management and capability necessary to deliver the Transformation Programme.

'It is essential that robust HR policies, systems and procedures are in place to support managers.'

These enablers have significant potential to leverage further savings and efficiency improvements in particular through:

- Reducing sickness levels through management interventions enabled by taking prompt and positive action supported through improved management information and new processes i.e. use of occupational health service, sickness trigger points to take action;
- Improved staff performance by addressing capability issues at an early stage, but also recognising good performance through appropriate reward systems;
- Terms and Conditions of service which are consistently applied, will lead to improved staff morale and motivation;
- Reducing non productive time, particularly the time managers are involved in activities, which can be reduced by having clear and transparent systems and processes;
- Reduction in staff expenditure through improved management interventions.

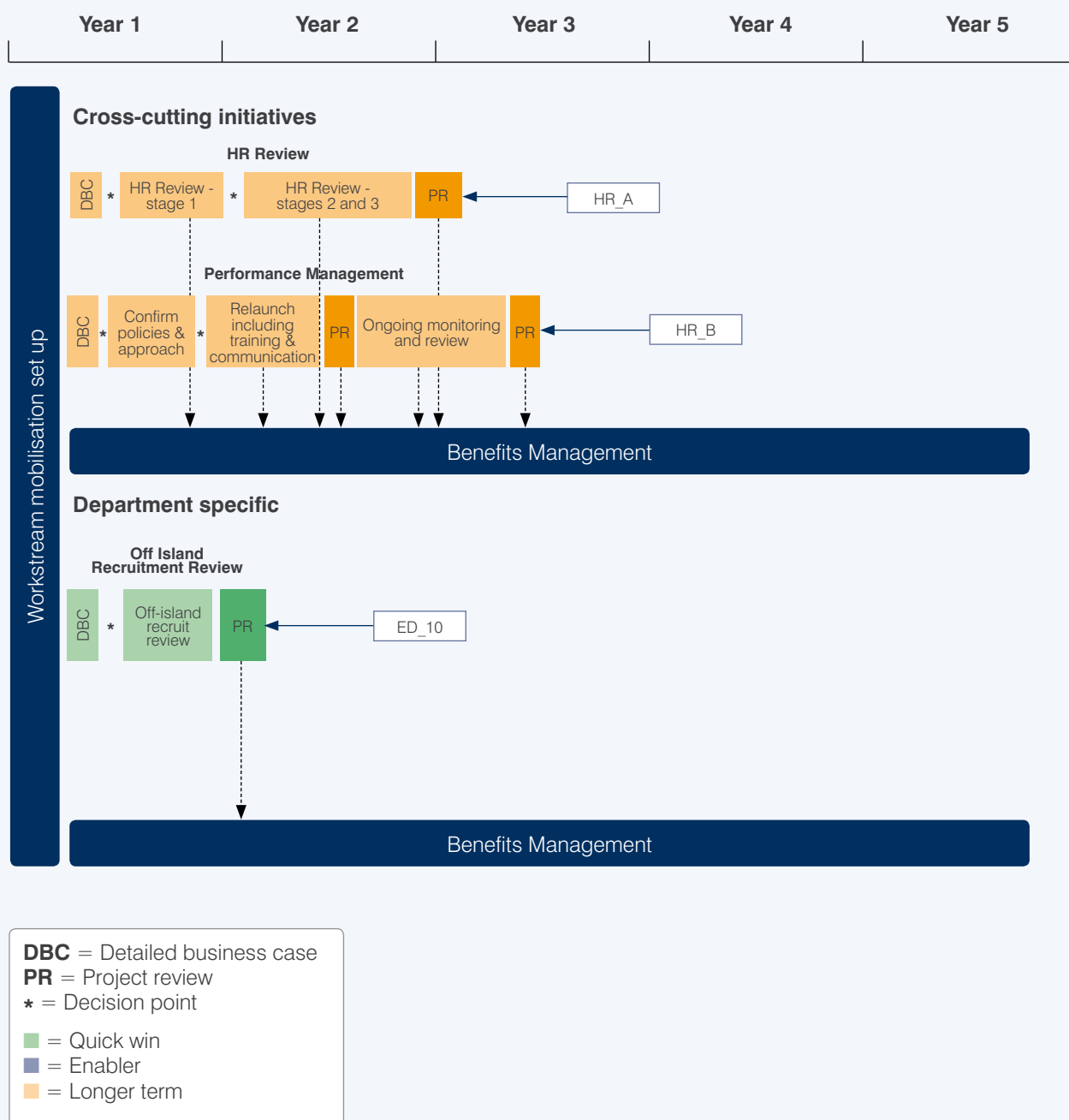


This work stream will focus on:

- Developing strategically aligned HR services in accordance with the States Strategic Plan. This will require a change in the existing level and distribution of HR skills across the states and a require increased functionalisation of the service;
- Eliminating duplication between central HR and departments, leading to reduced numbers of staff employed within HR;
- Introducing a States wide management information system;
- Introducing standardised employment polices and procedures across all departments and staff groups;
- Improving performance management of staff through the introduction of a professionally focused HR service to support managers and assist staff as required;
- Ensuring pay reviews are linked to affordability and the budgeting process;
- Identifying those factors that affect the ability of the States to recruit and retain staff.

An illustrative plan for this work stream is shown in the figure overleaf.

Figure 13: Illustrative Work Plan - HR Work Stream



Work Stream 6: Procurement

The States currently spends in excess of £180m per year on goods and services. Effective procurement is clearly a key business enabler, and offers significant potential to release efficiency savings.

The FSR Phase 2 indicates that changes to the States approach to procurement and improvements in procurement practice have the potential to secure net revenue savings valued at more than £21m over 5 years.

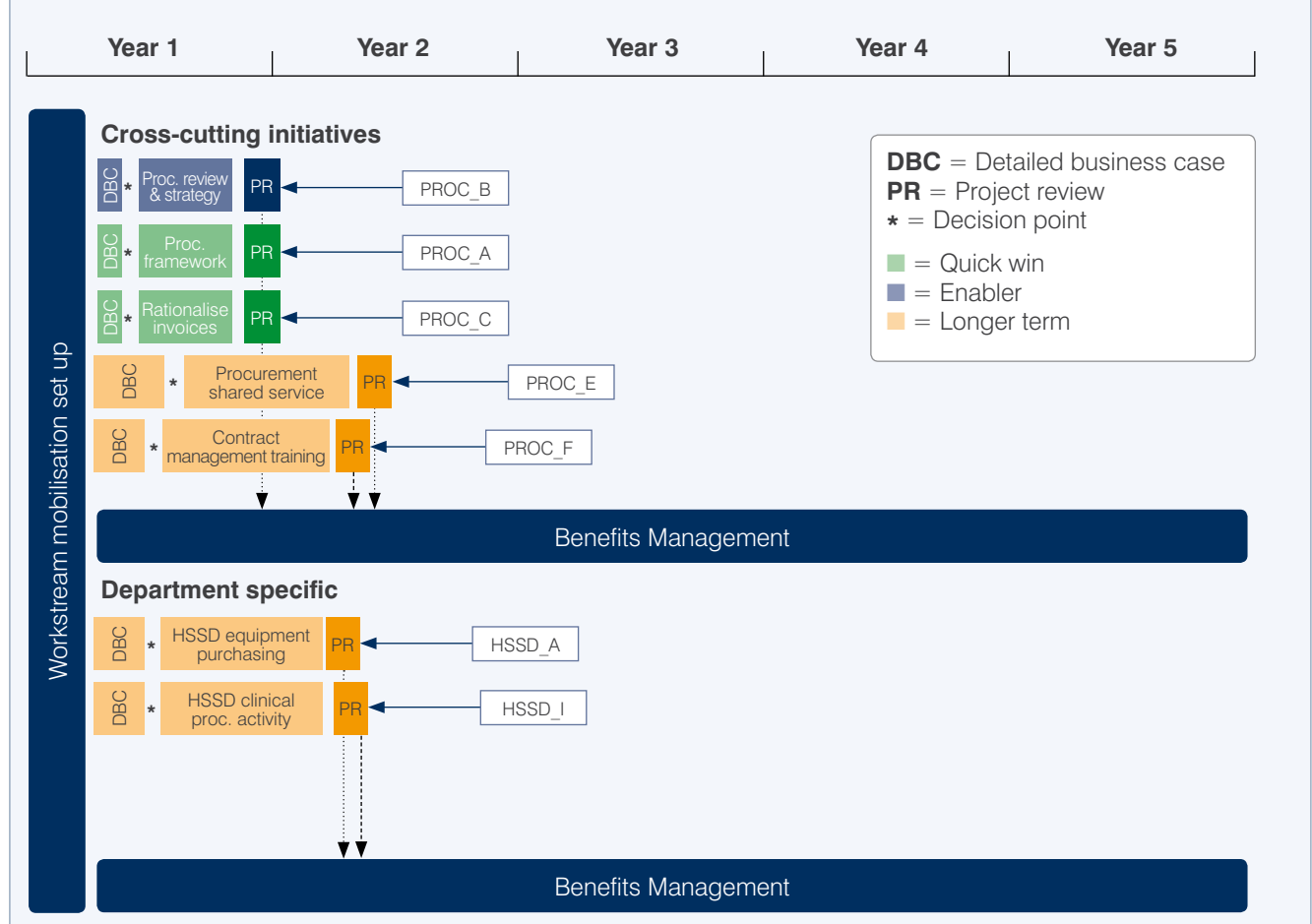
However, we have identified 3 core issues that are crucial to the successful delivery of efficiency gains through effective procurement, and that will need to be addressed through the activities of this work stream:

- Embedding a common set of processes and procedures for procurement regulated by the Corporate Procurement Unit and adopted and adhered to by all areas of the Public Sector. Accompanying this is the need to improve the recording and analysis of spend data across the States;

- Adding value by actively seeking opportunities for greater collaboration:
 - Between departments;
 - With other Channel Island jurisdictions; and
 - With the UK public sector;
- Recognition that procurement is a professional skill and should be recognised as such. At present the only formally qualified procurement professionals employed by the States exist within the Corporate Procurement Unit. This unit must be empowered to direct and co-ordinate procurement activity across all departments.

An illustrative plan for this work stream is shown in the figure below.

Figure 14: Illustrative Work Plan - Procurement Work Stream



Work Stream 7: Grants and Subsidies

The States currently provide a range of grants and subsidies to organisations that are, or should be run as commercial entities. These grants and subsidies represent a combined annual cost to the States in excess of £8.75m per year.

Examples of the grants and subsidies identified during the FSR include:

- Bus company subsidy (£2.5m per year);
- College subsidy (£2.4m per year);
- Dairy Farm Management Contracts and subsidised farm services (c£2.3m per year);
- Landing concession fund (£800k per year);
- Beau Sejour leisure centre subsidy (£750k per year).

Whilst we accept that the histories behind these grants and subsidies are complex and emotive, and that we have been unable to explore them in detail within the time frame of FSR Phase 2, in most cases we have been unable to identify a transparent and effective measure of their efficacy.

The objectives of this work stream will be to:

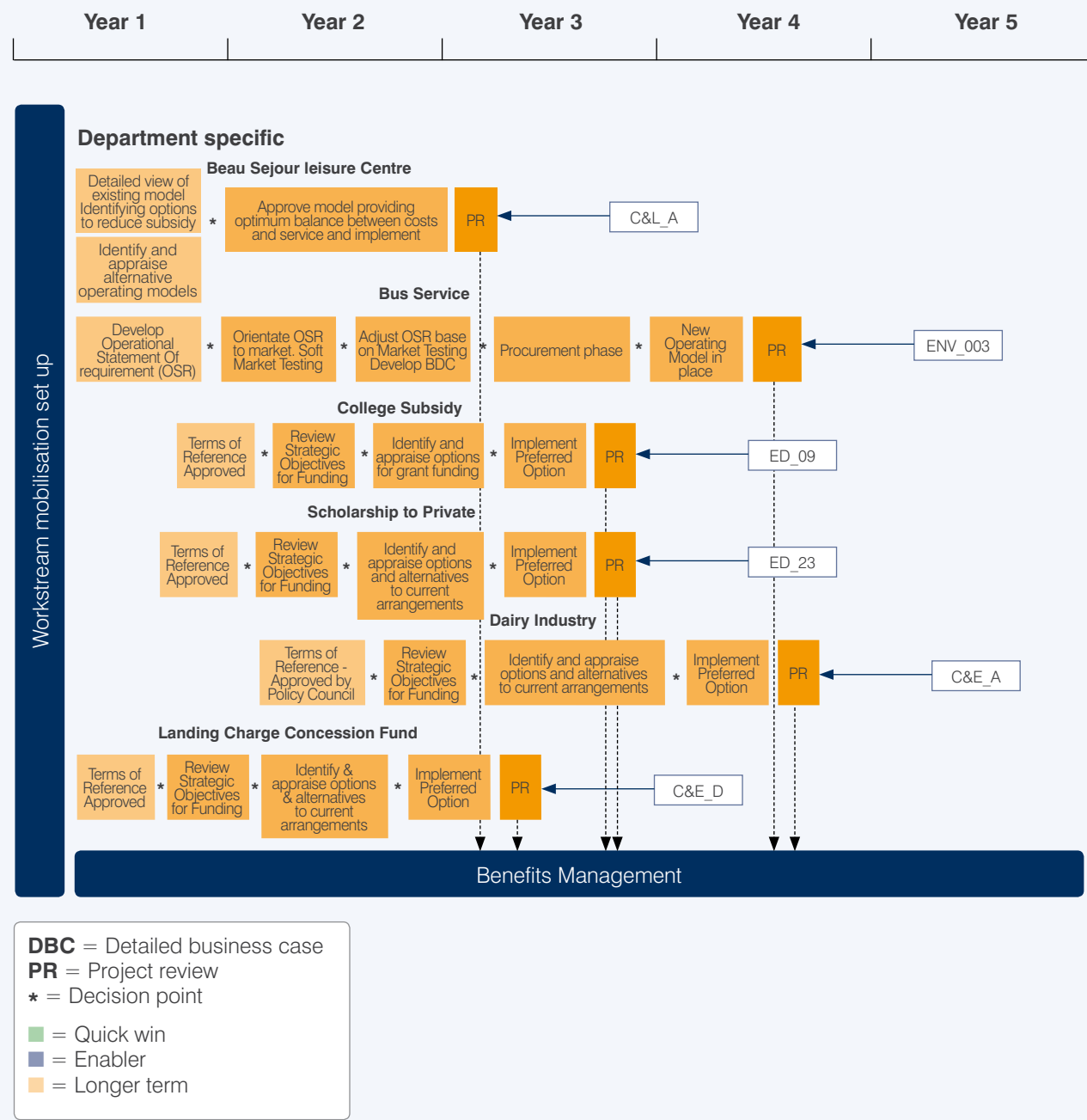
- Test in detail the efficacy of each identified grant or subsidy;
- Confirm the continuing validity of the stated objectives for each stream of funding;
- Assess the extent to which the current mechanism of delivery represents value for money;
- Assess both the direct and indirect impact of any changes to current levels and methods of funding;
- Make evidence based recommendations for the continuation, alteration or cessation of each funding stream.

Some of these subsidies already have review dates agreed for them, and reviews of the remainder should be programmed to take place as soon as is practicable.

These reviews must not be allowed to take place in isolation or to focus only on the direct impact of the funding. Both the level and mechanism of any future funding, should be considered within the context of the overall demands on States budgets and its impact on the overall strategic objectives of the Government.

An illustrative plan for this work stream is shown in the figure below.

Figure 15: Illustrative Work Plan - Grants & Subsidies



4 Embedding and Sustaining the Change

Whilst an integrated Transformation Programme, a fundamental part of which is a Financial Change Programme, will enable the States to deliver the change it requires, it is not a “silver bullet”. The ease with which it can be delivered, and the potential to embed and sustain the outcomes it achieves also requires the States to take targeted action in 5 key areas:

4.1 Strategic Management

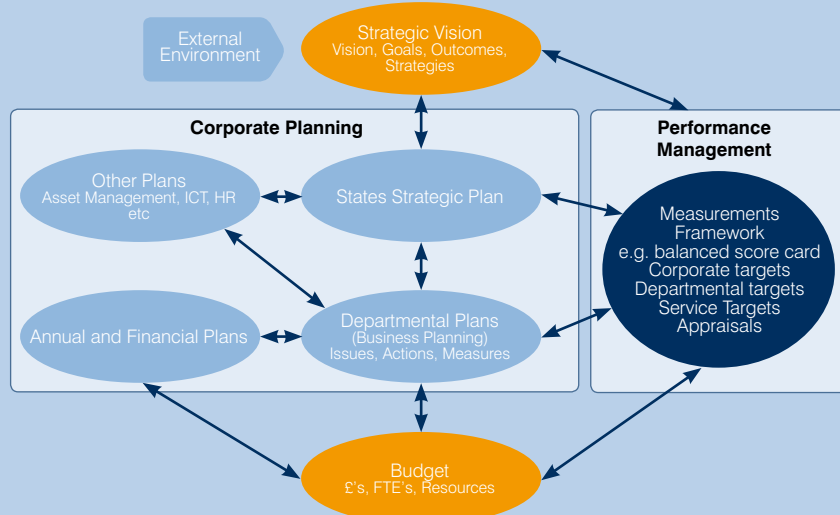
The States has recognised that if it is to deliver, embed and sustain the benefits of the FSR and the recommended Transformation Programme it must create a ‘golden thread’ from its vision through to its Strategic Plan through to individual performance plans to ensure that all strategies, performance and outcomes are aligned. The States must ensure that it has:

- A clear unifying corporate vision for the future;
- Clear and unified strategic direction endorsed by senior deputies and chief officers, taking account of partners and other stakeholders;
- Mechanisms for accountability (to the citizen in meeting their expectations, as well as to the States in meeting policy targets);
- Framework for governance at all levels (government-wide down to internal reporting arrangements) to ensure effective coordination even when there are competing priorities and different goals;
- Ability to exploit opportunities and respond to external change (turbulence) by taking ongoing strategic decisions;
- Coherent framework for managing risk - whether it is balancing the risks and rewards of a business direction, coping with the uncertainties of project risk or ensuring business continuity.

‘The States must ensure that it has a clear unifying corporate vision for the future.’

This is illustrated in the *Figure 16: Strategic Management Framework*, below.

Figure 16: Strategic Management Framework



4.2 Developing a Unifying Vision

The first step to effective strategic management is developing a clear and unifying vision for the States of Guernsey. Currently, there is little evidence of a common purpose to which all departments and staff subscribe. Harmonisation of purpose will provide a 'philosophical framework' within which departments can operate and decisions can be made.

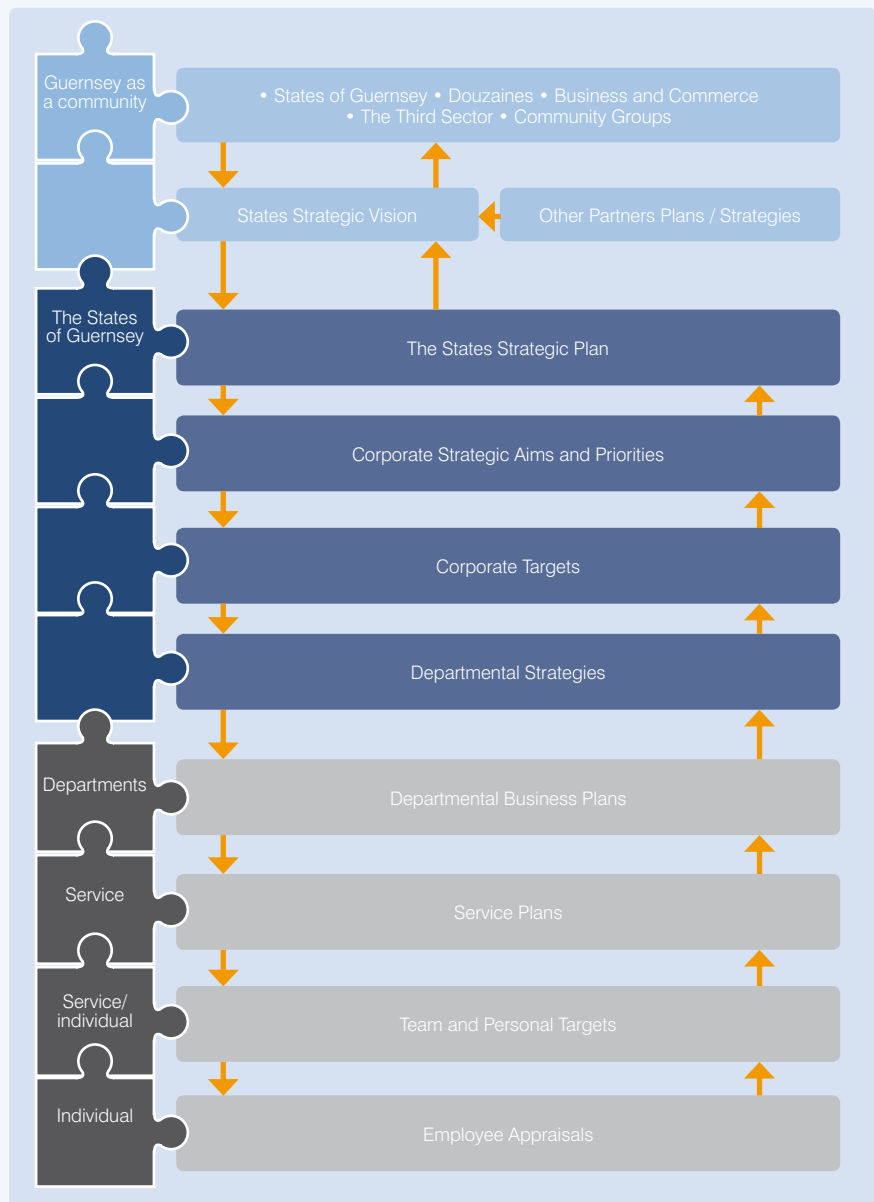
The States needs to clearly articulate what the organisation wants to achieve, its aims and purpose and the values it will adhere to when delivering those aims. This vision will provide the anchor for a 'golden thread' running from the States overall raison d'être, through strategy and operational plans to individual staff personal objectives.

4.3 The Golden Thread

Once a clear vision is in place the States will need to establish a 'golden thread'. This golden thread ensures that all strategy, plans, targets and desired outcomes are aligned to the vision, and ensure that the States, its departments and services, are only engaged in activity that makes a demonstrable and positive contribution to achieving it.

This golden thread is illustrated in *Figure 17* below.

Figure 17: The Golden Thread



It will be essential to keep this golden thread under constant review, as part of the continuous task of monitoring organisational performance. The strategic management process must regularly consider:

- Is the 'vision' for the States still valid?
- Are the themes of the strategy still appropriate?
- What progress is being made on strategic themes, and is there need to re-prioritise or re-plan to ensure that the rate of change meets the business requirements?

'A well developed business planning process is fundamental to any business and certainly represents best practice in government.'

4.4 Developing a Medium Term Business Plan

A well developed business planning process is fundamental to any business and certainly represents best practice in government. An appropriately constructed business plan represents an agreed set of objectives, outlines the reasons they are to be pursued, details how they will be achieved and summarises the costs associated with achieving them. It is the link between strategy and operations.

It allows the 'golden thread' to be traced from Strategic Plan through Departmental Plans to Operational Plans, thus ensuring that all expenditure is incurred in pursuit of an established corporate aspiration.



It is recommended that the States moves to a fully costed business plan which links required inputs, financial and non-financial, with identified outputs that contribute to the delivery of strategic priorities. A five year planning horizon is suggested. Once implemented such a plan will:

- Enhance budgetary control and decision making via improved transparency and data quality;
- Facilitate the alignment of resources with those policy objectives that support the States' long term strategic aims;
- Facilitate effective performance management;
- Allow realistic budgets to be set using a robust costing process;
- Introduce the economic concept of choice - some activities will only be able to be pursued at the expense of others as activity is linked to budgets, and budgets are constrained;
- Contribute to correcting the fiscal imbalance between available resources and expenditure plans by informing long term fiscal strategy;
- Facilitate long term modelling and scenario planning against forecast economic and fiscal trends;
- Allow best fit solutions to be selected without the artificial time constraint of annualised budgetary allocations;
- Provide improved certainty for project funding.



4.5 Operational Governance

Governance describes the means by which an organisation is directed and controlled. It relates to the processes, policies and rules that set parameters and define behaviours. Only through effective operational and financial governance can a sustainable and financially viable way of working be established and maintained in future years.

Effective governance will be required at each stage of the planning and delivery cycle to maintain the integrity of the 'Golden Thread'. Once the vision and purpose have been established, it is the governance structures that will ensure they are adhered to. Output metrics, reporting standards, business cases, performance monitoring will all be necessary checks and balances to ensure, encourage and facilitate desired behaviours. When combined with defined process and rules at each stage in the cycle a robust and complete Governance structure can be established.

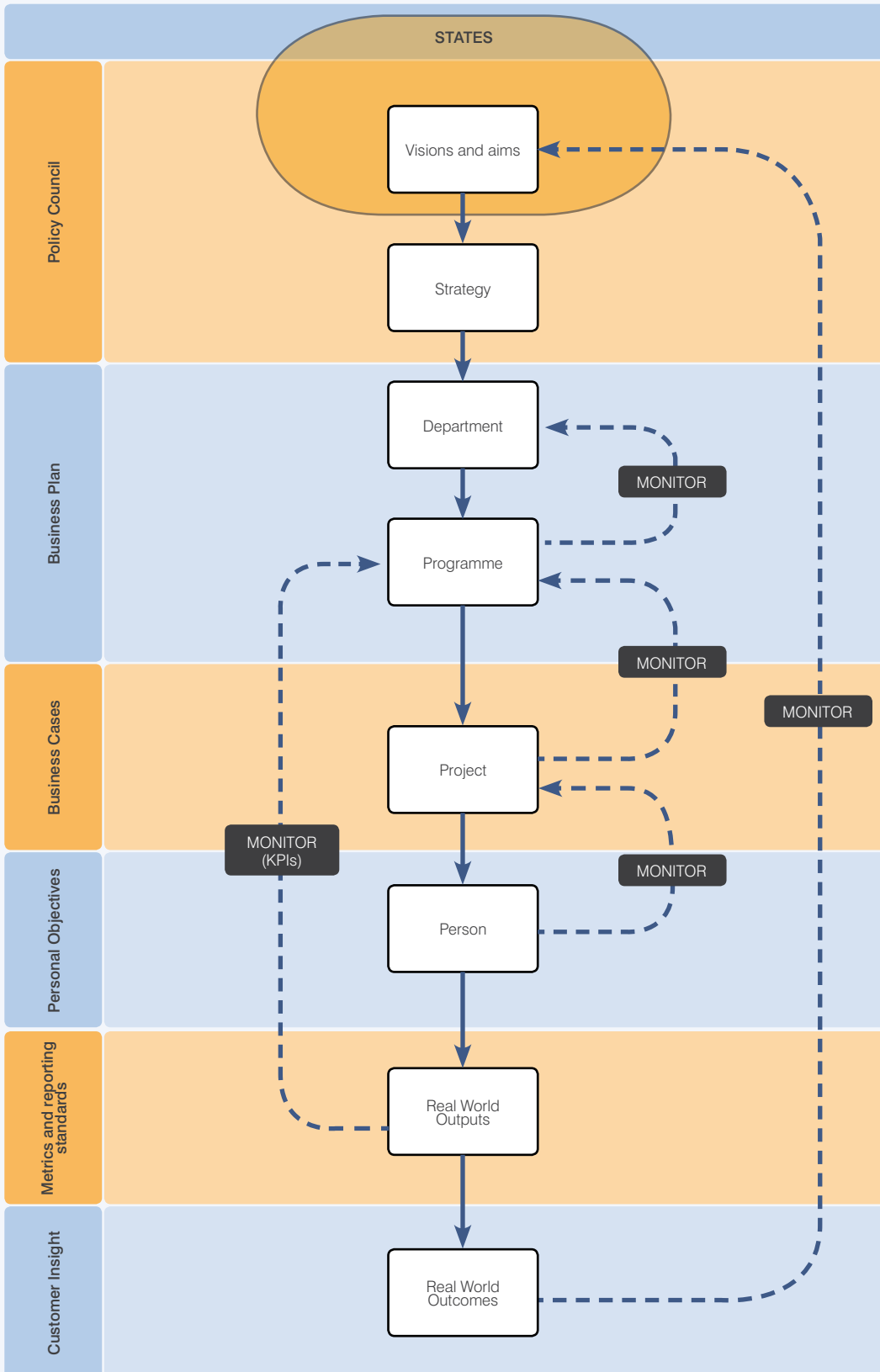
Effective operational governance will need to provide:

- Definition, documentation and communication of decision making processes;
- Definition of criteria to distinguish between political and operational decisions;
- Commitment to new 'core value' for the states that all decisions will be evidence based;
- Clarification of lines of accountability and responsibility along with available sanctions and incentives;
- Standardised systems and processes;
- Documentation and dissemination of operational rules and policies.

The proposed move to internationally recognised accounting practices (such as IFRS) is an essential and unavoidable step that must be taken to achieve the improvements required in the standards of financial management and operational governance across the States. Effective financial governance and management are the principal enablers of sustainable progress for the States. They set and maintain the operational constraints and apply the rigour required for continued improvement.

On the next page, *Figure 18: Embedding and Sustaining the Change* illustrates the relationship between Strategic Management, the Golden Thread and operational governance.

Figure 18: Embedding and Sustaining the Change





5 Conclusions

The FSR has identified real and significant opportunities to make material savings. Additionally, it has re-emphasised the potential to deliver a step change in the culture and operations of the States. Together these changes will embed an efficient and value driven way of working to ensure the continued viability of the States and the economic well being of the Island.

We do not underestimate the quality of the services provided to the citizens of Guernsey. This quality is testimony to a history and tradition of hard work and expertise invested in services over the years. In the changing economic and fiscal landscape, the FSR, the Financial Change Programme to deliver it and the subsequent Transformation Programme offer a long term opportunity to maintain the unique and enviable position that Guernsey occupies and will enable the Island to continue to be independently minded and to strive for unbeatable services, efficiently delivered.

We have identified a number of recommendations that will deliver proper financial governance, allowing departmental spending plans to be delivered effectively, efficiently and economically. If implemented, the States will be in a position to deliver zero based budgeting linking strategic plans to operational delivery whilst ensuring that departments are able to concentrate on service delivery.

Furthermore the current silo mentality must be broken to enable the delivery of sustainable services. It is estimated that £51m of the savings identified in this report rely upon a unified and corporate approach to Government.

The recommendations of this programme are deliverable and sustainable and offer the opportunity to release a net revenue saving of £70m over a 5 year period. It offers the States the potential to take a step change in making the delivery of unbeatable services affordable and sustainable.

'The recommendations of this programme are deliverable and sustainable.'



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