

Signals of change Election 2015

UK Public Sector



The 2015 election is the most unpredictable in recent history and its outcome will have significant implications for public sector leaders. Keith Leslie explores what the current 'signals of change' suggest about the election and beyond.

Introduction

General elections are inevitably a time of change for public sector leaders.

The 2010 election, bringing in the first peacetime coalition government for 80 years, heralded a new era for civil servants and the people running our public services.

Major projects from the previous government were cancelled, scores of non-departmental public bodies were merged or abolished and austerity measures drove substantial headcount reductions.

As the 2015 election gains momentum, there are emerging 'signals of change' to indicate how the next government may be formed as well as the implications for major projects and public spending. This paper explores those signals of change.

The economic backdrop for election 2015

The 2015 election is taking place against a backdrop of uncertainty in the global economy. While growth in the UK economy is strong relative to other major economies, three issues remain:

1. The UK recovery could be fragile, with Europe as the big unknown

The Eurozone is stagnating and has entered deflation, which could reduce opportunities for UK business. Less easy to foresee is the impact of a possible in-out referendum on Europe in 2017 if the Conservatives are in Government. Business is largely staying out of this debate so far, but if a 'Brexit' appears likely, investment in the UK could be adversely affected.

2. Government finances are still chronically weak

Despite the economic recovery, UK government finances have been undermined over the long term by the legacy of the 2008 economic crash. Tax revenues have failed to meet expectations, and the growth in low-income jobs does not boost income tax revenues sufficiently to make up losses elsewhere.

3. The bulk of spending cuts are yet to come

According to the latest forecasts, the Government is now at the half-way point in its programme to eliminate the fiscal deficit and restore the public finances. Some 80 per cent of the deficit reduction is expected to come from cuts in public spending, and the next wave of savings measures will be set out in a 2015 spending review some six months after the next government takes office. These cuts, on top of those already made since 2010, will feel like the hard yards to many public sector organisations.

The return of single-party government

The effect of the Fixed-term Parliaments Act 2011 and the experience of the 2010-15 Coalition make it likely that the UK will return to single-party government in 2015, albeit not majority government.

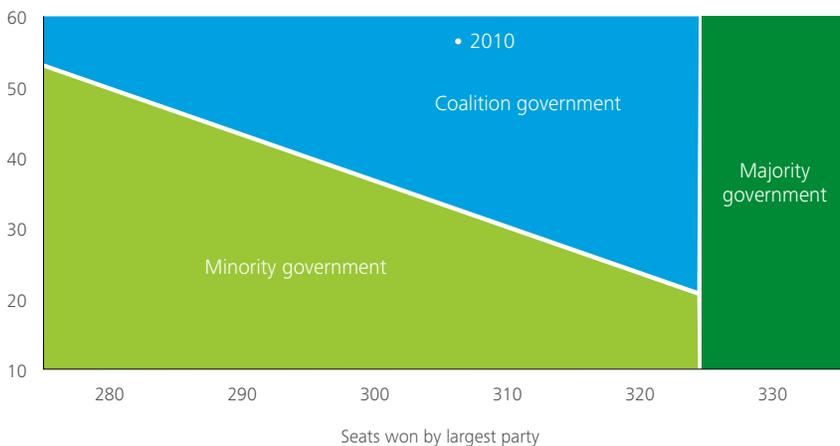
The 2015 general election is one of the most unpredictable in living memory due to the possible effect of multiple 'minor parties' on the ultimate distribution of seats in the House of Commons. This is a matter of importance to public sector leaders because of the connection between the election outcome and the likely ability of the next government to take a clear direction and implement tough decisions.

Any one of three outcomes is possible: a minority government, coalition and majority government.

Single-party minority government is more likely if the largest party is relatively close to an overall majority – say, more than 300 seats – and the minor parties are highly fragmented, meaning that there can be no stable two-party majority.

Figure 1. How seats in the House of Commons translate into government

Size of third party



Source: BBC News

Single-party minority government would be made more likely by two other factors:

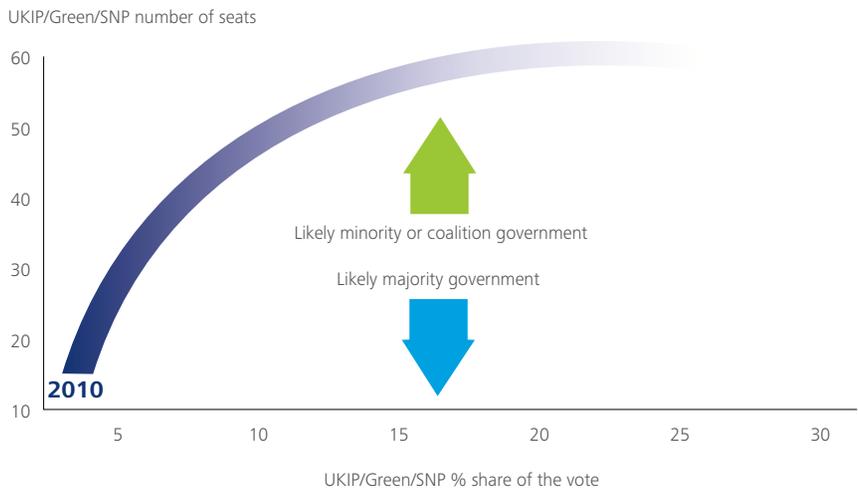
1. The immaturity of the British electorate towards coalition politics

Commentators have suggested that the Liberal Democrats could lose support for entering the 2010 Coalition, and both UKIP and the Scottish National Party appear to have drawn the conclusion that, should they hold a decisive position in a hung Parliament, they should support a minority government (so-called ‘confidence and supply’) rather than enter a formal coalition. If the Liberal Democrats suffer a large loss of seats, they may not agree to a continuation of coalition government, and the friction that would occur in working with a majority party.

2. The Fixed-term Parliaments Act 2011

The Fixed-term Parliaments Act 2011 makes early elections less likely and increases the prospects for survival for any government. The Act fixes the term of Parliament at five years unless there is a vote of no-confidence or there is a two-thirds vote in favour of an early election. Both scenarios would depend on collaboration between two or more parties determined to force an election: the probability of this happening is low, given that each party would require an appropriate cause and sufficient belief that it would gain votes in the ensuing election. We should therefore expect that a minority government could be quite long-lived. This prospect of stability, together with a desire to avoid the frustrations of operating under the constraints of a coalition partner’s veto, suggest that both Labour and Conservative will choose to govern as a minority if they do not obtain an overall majority.

Figure 2. How minority parties affect the outcome



Source: BBC News

Coalition government is more likely if any decline in Liberal Democrat votes nationwide does not translate into an equivalent decline in the number of Liberal Democrat MPs and, as a result, there is a clear majority for a combination of the largest party plus the Liberal Democrats. A coalition involving UKIP or the SNP does not appear likely at the time of writing.

All parties have learned lessons from the formation of the Coalition in May 2010. The friction between the parties in a coalition is high, and as we have seen since 2012, the likelihood of agreeing a second and third programme of coalition priorities as the Parliament wears on is increasingly small. Everything therefore depends on developing an initial programme that will carry the Coalition Government through a five-year Parliament.

The UK public should also be prepared that coalition partners in 2015 might take longer than the five days they took in 2010 to negotiate and agree a programme. The governmental interregnum could match the experience of other European countries and last for several weeks.

Majority government is always possible under the UK first-past-the-post electoral system, where the result in terms of seats in the House of Commons can be very different from the overall share of the vote. Small shifts in the proportion of votes cast for Labour and Conservative cause disproportionate changes in the numbers of their MPs. It appears that a majority government is most likely in a scenario where UKIP and the SNP take enough votes to make Conservative seats fall to Labour or Labour seats to the SNP – but not enough votes to win a large number of seats themselves.

Government spending in the post-election environment

Whatever the outcome of the general election, there will be only a short period of time during which the Government will have the political capital to take the big and painful decisions on tax and spending. This period can probably be measured in weeks rather than months.

What should be of interest to public sector leaders is that, whatever government is formed, there could be four common features in the approach to spending programmes:

1. The economic driver on government

The 2014 Autumn Statement highlighted the dominance of deficit reduction for the next Government. Irrespective of majority-coalition-minority government, we can expect some tax increases and significant public spending reductions, with huge pressure and enormous interest in alternative solutions to improve the productivity of public sector spending.

Labour, Conservatives and Liberal Democrats have all committed themselves to reducing the deficit year-on-year, albeit at different speeds and with varying emphasis on higher taxes and spending cuts. Interestingly, all the 'challenger parties' (not just UKIP and the Greens, but also all the regional parties – Scottish Nationalists, Plaid Cymru, Ulster Unionists and Sinn Fein) are playing the card of 'resisting Westminster austerity'. A particular challenge for a minority government – and perhaps a fatal one – would be passing Finance Acts to maintain deficit reduction while so many parties are tempted to play this anti-austerity card.

2. The 'consensus effect' around major projects of government

An outcome of the 2010 Coalition agreement has been the stability of major initiatives that translate into commitments lasting several Parliaments. The continuing deficit crisis is also forcing cross-party consensus on the direction of future reform. The parties will still find plenty of distinguishing or ideological features to differentiate themselves in the eyes of the electorate, on issues such as Europe, immigration, competition policy and consumer protection. If the general election results in a minority or coalition government, it can be expected that, at least insofar as major spending programmes are concerned, that the UK will be governed with a broad alignment of support from all parties. Despite the rhetoric, the positions of Conservatives, Labour and Liberal Democrats on major spending programmes in welfare, health, education, defence and local government have much more in common now than they did in the run-up to the 2010 general election.

3. New major projects and new efficiencies go hand-in-hand

Some major projects of the Coalition Government will roll on through a change of government. The Civil Service are already initiating some major projects that will, with differing political narratives, be taking shape under whatever government takes office. However, the intense budgetary pressure will result in a new efficiency agenda in order to afford committed spending and new major projects. This agenda could intensify programmes to radically reshape the Civil Service required for its implementation.

4. Challenges to dominance of central government programmes

There is a growing challenge to the dominance of central UK government spending programmes, not just from other sources of power (devolved governments and the EU) but also from voter disillusion, the pressure for decentralisation in England, expectations of higher standards of public services driven by private sector comparisons, and the adoption of digital delivery of services for better-tailored service delivery and lower costs. In large swathes of the public services, the era of monolithic central definition and delivery is winding down.

Continuing themes

A new government will want to add new energy to significant major projects and priority spending areas. There is a tacit emerging consensus between Labour, Conservatives and Liberal Democrats around some key areas of government spending.

Departmental leaders are actively developing plans to match the anticipated major projects of the next government and to deliver dramatic spending cuts:

- **Health will receive additional funding**

The major parties are competing to promise the additional £8 billion forecast as the NHS spending 'gap' by 2020. The real challenge will be for the NHS to find the £22 billion savings through productivity gains noted in the Five Years Forward View.

- **Infrastructure will receive additional capital investment**

After cut-backs in 2010, road spending plans and the creation of Highways England as a government company have broad support, as do most plans for rail and energy investment.

- **Local Government will be cut**

Having absorbed reductions of more than 20 per cent since 2010, a further 20-30 per cent reduction is broadly assumed by all parties.

- **Departmental administrative spending will be cut**

Even in departments where programme spending is growing or protected, administrative spending (largely Civil Service headcount) will be cut further.

- **Welfare payments will be restricted**

A combination of political appearances and the state of government finances will persuade all parties to support tighter eligibility or reduction in welfare payments.

- **Schools and international development will be protected**

The major parties are competing to resource new schools, given the increasing pressure on school places. Political consensus also exists among the main political parties that aid spending should be maintained.

- **Home security will be protected**

Although with a understandably low profile, spending on national security will grow – especially in light of the domestic threat from radicalised UK citizens who have experienced conflict and returned to the UK.

As ever, 'what does not happen' will matter as much as 'what does happen'. The Coalition Government leaves a significant legacy in the form of major structural changes where the benefits are yet to materialise. There is no appetite to re-visit these issues. We can expect no major changes in direction in NHS structure, in defence transformation, or in the structure of the road and rail industries.

This is not to say that there will not be marginal changes: for example in transport, there may be a change in the rail franchise award strategy; but there will almost certainly not be any legislation to re-nationalise rail or reverse the creation of Highways England.

Compared to expectations during the run-up to the 2010 general election, when there was concern about the social impact of reductions in government spending, there has been surprisingly little public concern during the 2010-15 Parliament. This is largely because many of the spending cuts to date have been borne internally by public sector organisations, and where service levels have been reduced they have affected specific demographic groups rather than the broad majority of citizens.

However, the scale of spending reductions that we expect during the 2015-20 Parliament cannot rely on traditional approaches to cutting costs and headcount. The low-hanging fruit of pay restraint, reduced capital spending, and economies in overhead spending has largely been taken, and achieving spending reduction targets simply by cutting services and outputs will be politically and socially unacceptable. New thinking and approaches to service delivery will therefore be required.

The next five years could see increasingly widespread shifts to new models of public service delivery as well as accelerated progress on the digital agenda, which offers savings without the same political cost as cuts.

Conclusion

The 2015 election may be the most unpredictable in living memory and even pollsters acknowledge that the result is not possible to call at this stage. However, certain signals point to the likely return of single-party government, quite possibly in the form of minority government.



A reduction in seats for the Lib Dems and the prospect of a fixed-term Parliament would certainly make a working minority government more feasible than in previous elections.

For public sector leaders, the state of the public finances, political consensus over major projects and the growing challenge towards centrally-driven programmes will provide some consistency. However, spending in areas such as local government, administration and welfare looks set to fall and new models of service delivery are likely to become more widespread than in this Parliament.

A handwritten signature in black ink that reads "Keith Leslie". The signature is written in a cursive, slightly stylized font.

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