

As George Osborne finalises his Spending Review, local authorities – which have already borne the brunt of austerity since the last review in 2010 – are bracing themselves for more seemingly impossible juggling acts of sustaining services while grappling with further budget cuts.

The chancellor has told unprotected Whitehall departments to model cuts of 25% and 40% – to secure £20bn worth of savings from government expenditure by 2019/20 – on top of the £12bn of welfare savings identified in the Summer Budget.

Subject to further detail, we know that four departments – transport, environment, the Treasury and local government – have already agreed to cut their spending by 30% over the next four years.

According to the Government's most senior non-executive director, civil servants have found this process far from straightforward. Sir Ian Cheshire, former group chief executive of Kingfisher, has warned that departments are in the 'fog of war' as they try and work out how to cut their budgets by 25 November.

As a former senior civil servant myself, I have a degree of sympathy. Officials are simply not easily able to effectively plan their budgets for the medium-term. Competing short-term priorities, events, micro-management by the Treasury and internal politics between departments only make things more difficult. So departments continue to salami-slice budgets and make piecemeal reductions that focus on the Government's short-term priorities with little thought for the long-term or how services can materially be delivered better.

This is very much at the crux of what's so wrong with the traditional Spending Review process. The Government should adapt and use the Spending Review to focus on four key areas:

First, it should encourage service transformation and spur government departments to ask some tough questions about themselves – how can they reform organisationally? Do we need as many departments and can skills be shared? All of this needs to be driven by the Treasury empowering budget holders to plan for the medium term and question the unintended consequences of short-termism.

Secondly, the Spending Review should prompt the Government to seriously test some of its sacred cows and replace the blanket ring-fencing of health, defence and overseas aid with a system of having to make cuts to reinvest on a business case basis. These would still be priority areas but it would reduce the lazy thinking that locks in inefficiencies.

Thirdly, the Spending Review should herald a public sector-wide approach to how public expenditure is managed to break down silos across Whitehall and promote cross department and organisational strategic thinking. For example, it's deeply counter-productive to cut £200m from public health budgets – a move which the Faculty of Public Health has suggested could lead to £1bn in knock-on costs to the NHS. Indeed, we know that for every £1 invested in areas such as tobacco control and psychosocial treatments for alcohol addiction, the public sector saves £5. The Government should lock those benefits in by committing to public health budget increases above inflation every year.

Finally, while extolling shared services to the police and local government, Whitehall departments could show willingness themselves. The Department of Energy and Climate Change could join BIS or Department for Environment, Food and Rural Affairs; the Scotland, Wales and Northern Ireland Offices could sit happily under one roof and the Treasury could merge with the Cabinet Office and No 10 to create a more coherent centre at the heart of government.

In conclusion, the oversimplified narrative that focuses on spending and deficit should be ditched to look at outcomes and delivery with an overarching holistic plan to improve capability and accountability and a laser-like focus on medium-term planning. The UK faces an ageing population and higher spending on healthcare. The world is also becoming a less safe place. The problems are strategic and so the outcomes of the Spending Review must be driven by more than just tactics and short-term thinking.

Rob Whiteman is chief executive of the Chartered Institute of Public Finance and Accountancy (CIPFA)