Cost Reduction Guide

Tools, policy and guidance

www.wao.gov.uk/goodpractice
Cost Reduction Guide

About this guide
The purpose of this guide is to help public services respond to the reductions in their funding in a thought-through and systemic way. Our fundamental goal is to help support public services to make robust and sensible choices about reducing costs while minimising the impact on people, particularly the most vulnerable, and, where possible, also improving services.

Who is this guide for?
This guide is aimed at a varied audience. We intend it to help the people responsible for managing the consequences of cuts – political leaders and managers. We want this guide to help those whose role it is to scrutinise the decisions being taken – politicians on committees, members of public service boards and committees. We also intend that local groups, citizens and service users can use the guide to engage with and contribute to the process of designing and delivering an effective response to public sector budget cuts.

Background to this guide
The Wales Audit Office recognises the considerable challenges that public services face in dealing with budget cuts. Public services have known for some time that budget cuts are coming. We now have some certainty about the scale of those cuts.

Our guide to cost reduction is not a panacea and it is not a prescriptive checklist that makes difficult choices easy. What it does do is provide a basic framework to help public services to think carefully and strategically about the choices that are available. Although this guide starts with getting a clear idea of costs, it is intended to support a more systemic approach – cost is a major systemic constraint but needs to be understood alongside an analysis of value – shaping your organisation and services to deliver their purpose, outcomes and priorities.

We appreciate that many organisations are making progress in planning to meet the financial challenges and have been doing so for some time. Nonetheless, we hope that this guide will still provoke thought about the options that you are considering and the means of delivering. It should also serve as a sanity check – to review whether you have considered all the options and have a clear idea of the next steps.

It is likely that any organisation’s response will need to be multi-stranded, comprehensive, well thought out and require transparency with citizens, service users, staff and other stakeholders. It will also require a sense of urgency, enthusiasm and a good dose of conviction.
Steps in this Guide

Click on each step to learn more.

- Learn and adapt
- Determine the extent of the financial issue
- Communicate the problem with stakeholders
- Consult on and establish clear priorities
- Monitor progress against a balanced set of measures
- Have conviction
- Work out the options
- Determine a range of options. Think hard and listen to others
- Identify which of these do least harm in the short and long term
- Engage the community to explain why the decisions have been made
- Decide on the approaches to be taken
- Be strategic and realistic
1. Determine the extent of the financial issue

Work collaboratively to get an understanding of the scale of the problem and what the priority is in resolving it.

To develop a long-term sustainable response, you will need a comprehensive understanding of the problem. Knowing the change in budgets over the past to present financial year is not enough. You need to take a fundamental ‘zero-based’ look at your financial position. You will need good financial information both for your core business as well as any subsidiary public/private partnerships that you may have a stake in. It is also good to have a solid understanding of your income streams to determine which income streams are vulnerable, and which can be expanded and developed.

Once you have this information, start forecasting and modelling based on the current picture and predicted future, and consider the financial health and risks to key partners and organisations that you hold a stake in; they could look to you in time of need. It is worth clarifying the extent of their financial risk.

2. Communicate the problem with stakeholders

No doubt, you will have some difficult decisions and discussions down the line, so it is important to clearly communicate (without scaremongering) the scale of the financial problem up front. Transparency is key not only to build trust and relationships, but it may also provide you with new opportunities. Imposing change without being clear why is likely to build a wall of resistance. It is hard enough to create a change culture in good times, let alone when times are tough, so start off on the right foot.

3. Consult on and establish clear priorities

Don’t lose track of your vision. You will need a clear focus on core business and service outcomes, distinguishing between statutory responsibilities and discretionary activities to deliver your priorities. Get the public and service users to reaffirm what they want from your organization and services. Ensure that any consultation provides opportunity for all to comment. Where possible, try to see what is happening on the frontline, to understand what matters to service users. It is often those that are at most risk and vulnerable who are least likely to comment on your key services. These people are also likely to be most affected by the public sector budget cuts. It is also worth considering consulting by area to make this more affordable and beneficial. Other public sector organisations often share the same audience so it is worth spreading the effort and cost. It is also worth analysing the results of consultation in partnership.
4. Determine a range of options

Work out a set of options with partners and stakeholders, and make decisions on the basis of the options that save money while doing the ‘least harm’ to the outcomes.

Once you’ve established clear priorities, the next step is to draw up a set of options for making savings that reflects those priorities. It is important at this stage to link the priorities and the outcomes that you want to achieve as an organisation, to the financial plans for the future.

Click on the below image for further guidance on each option.

It is highly unlikely that there will be a single solution to respond to the budget cuts. Any approach can have significant detrimental effect if not well thought out, properly designed and implemented. We therefore suggest that organisations identify a broad range of potential mechanisms to address the financial issues, and then, as we discuss in the next section, analyse which of these do the least harm in the short and long term.

For a while, our mantra in the Wales Audit Office good practice domain has been ‘don’t reinvent the wheel’, and when you are tasked with responding to the downturn, there will be a large number of organisations in similar situations. In these difficult times, people pull together to share ideas and tools and collaborate. Invest your time both in researching options and engaging your staff, peers and stakeholders.
5. Least harmful outcomes

There is a careful balancing act between approaches to control and cutting public sector spending, and the consequent impact on wider Welsh society as a whole, its citizens, those who are deprived and in need and also key environmental issues. Poorly planned cuts are likely to have far reaching and long lasting consequences that traverse beyond service users, but also deep into the fabric of Welsh communities. That is why it is important to consider the wider impact on society, the economy and the environment (see the exhibit below). Efficiency actions should however reduce costs without consequences to services or citizens. And, as Mark Friedman - who developed the Results Based Accountability approach - has said, the goal when making priority based cuts should be to do the ‘least harm to outcomes’.

<table>
<thead>
<tr>
<th>Economic deprivation</th>
<th>Health deprivation</th>
<th>Community safety</th>
<th>Environmental deprivation</th>
</tr>
</thead>
</table>

The model below demonstrates the possible positioning of different measures to achieve savings, or cutting costs. Our observations over recent years indicate that the public sector has focused on 'low hanging fruit', typically procurement savings which represent easy savings with often minimal impact on the citizen. However, once the low hanging fruit has been exploited, the options become progressively harder or more severe. It is very easy to be protective and think about the consequences to staffing, but we believe it is important to take it a step further and think about the consequences to the citizen and service user, consequences against your outcomes, and impact on other sectors. Obvious links are between Health Care and Social Care, Social Care and Housing, availability of skills and private sector growth. It is also important to consider the sustainability of your options; this is important to ensure that economy, societal and environmental aspects are considered together.
6. Be strategic and realistic

It is important to be realistic about the level of savings that can be achieved. There is a balance to be struck between a need to be bold and ambitious, and realism about the difficulty of delivering change. Savings that may be theoretically possible can be difficult to actually deliver in practice. It is also important not to forget that sometimes there are upfront costs involved in making the savings. You will need to be absolutely clear about the costs as well as the savings.

It is also important to take a strategic approach. The goal should be for organisations to move towards a transformational approach, where they have a strategic approach where efficiency and improvement become part of the day job. But that takes time. Although designed for police forces, other public services could look at the toolkit to assess for themselves where they sit on this continuum. Knowing where you are can help inject a sense of realism - it might be unrealistic for an organisation to expect to shift from an ad hoc transactional approach to become transformational and radically re-shape its services and culture in a very short period.

7. Decide on the approaches

Be bold in delivering the chosen options, taking care to bring staff and service users etc along with you and to explain changes.

‘Most discussions of decision making assume that only senior executives make decisions or that only senior executives’ decisions matter. This is a dangerous mistake.’ Peter Drucker

‘You have to have doubts. I have collaborators I work with. I listen and then I decide. That’s how it works.’ Giorgio Armani

This is where the tough decisions come. Having identified a range of options and identified which of these do the least harm in the short and long term, it is time to make decisions. We have identified three types of decision approaches. You may want to consider some or all of these in differing circumstances, depending on the extent of the issues that confront you and the range of shortlisted approaches to respond to the issue:

- **Open and transparent**, put your analysis in the public domain and seek feedback to inform decision making.
- **Organisational inclusiveness**, open your decision making to staff in your organisation, unions and your partners, and seek feedback.
- **Corporate autocratic**, make final decisions in a closed environment.

Whatever decisions you make, you will need to be absolutely sure these are legal, justifiable, stand up to scrutiny and have political support. You will need to be bold and take well-assessed measured risk, but not reckless risk. Most importantly these decisions will need to stand the test of time.
8. Engage the community

Before implementing solutions, ensure that you have explained why you have made these decisions to the public and to your staff. There is no need to scaremonger, so be clear and realistic. Prepare the organisation and your partners for change, but be explicit what changes are coming. In the end, those who are not engaged may become inhibitors, and those who are engaged will become advocates or even contributors. It is worth spending time getting as many onboard to help if you are paddling upstream.

‘Promote the results of consultation and explain what has happened as a result. Don’t shy away from talking about unpopular or controversial decisions.’ Local Government Improvement and Development Agency (IDEA).

For further guidance on public engagement, visit Participation Cymru’s website.

9. Implement the solutions

There are several approaches to implementing solutions. Careful consideration of phasing, timing, creating the right environment for change, and managing expectations is required. Some changes may have to be made from the top, but we believe that where at all possible, there should be a strong degree of collaboration. In line with Lean principles, it is also important to break down the silos, take a whole systems’ cross-sector approach when implementing solutions. Consider your approaches for empowering staff and what new capability skill sets are required, for example the financial management skills required.

Do not forget what your core service and business priorities are, and remember that you are reshaping the organisation to be fit for purpose in the future, and not simply cutting costs.

Dr John Kotter, a renowned Harvard Professor has spent several years developing approaches for change. The principles are:

1. Act with urgency
2. Developing the guiding coalition
3. Developing a change vision
4. Communicating the vision and getting buy-in
5. Empowering broad-based action
6. Generating short-term wins
7. Don’t let up
8. Make change stick

Dr John Kotter - Change Steps (External Link)

Be bold, manage problems as they arise.

Making tough decisions was only the first step; in implementing your chosen approaches, you may face a crisis of conscience, and you are likely to face both visible and hidden resistance from a range of directions. It is time to be bold and have conviction, but it is also a
time to listen. Some people do not like change and some do, but will still see a threat. Soft leadership skills are vital in taking your changes forward as much as business, commercial and financial skills.

10. Monitor progress

Keep track of the impact and learn and adapt, as things never turn out exactly as planned. It is important to keep track of the savings you make and the impact of changes on service quality and citizen outcomes. Public sector organisations across the UK have started to utilise Results Based Accountability/Outcomes Based Accountability, which provides a framework for a balanced set of measures. There are several significant aspects to consider in measuring and monitoring progress:

- **Agree at an early stage what success will look like, and how you can measure progress and the final outcome.**
- **Financial data on cost savings should be robust.** This may mean having to measure things slightly differently. In particular, it is often helpful to be able to measure unit costs, to see the cost of each transaction, but more importantly to measure end-to-end costs, to work out exactly how much it costs to deliver a service to the end user.
- **Measures of performance should be given equal weight.** When we reviewed the Making the Connections programme, we found that many organisations claiming efficiency savings could not prove that they had managed to sustain or improve the level and quality of services for lower cost.
- **Even where making outright cuts, as opposed to efficiency savings, performance measures are important.** You should measure, and understand whether your approaches have had undesired consequences, and what, if any, remedial action is required.

11. Learn and adapt

Importantly....Demonstrate and celebrate successes, this is a hard journey; you, your staff, stakeholders and partners will all deserve recognition.

‘You can accomplish anything in life, provided that you do not mind who gets the credit.’
Harry S Truman

Simply monitoring the situation is not enough. If you think you need to make changes, then make them. Things almost never turn out exactly as planned and it is important to keep updating plans and taking remedial action in light of experience.

Given the scale of the challenge your and other public sector organisations have faced and continue to face, good approaches should be developed so that you can learn from your own and others’ experiences. While the richest learning is the learning you make from your own mistakes, it is also prudent to learn from others!

Create the time and capacity to reflect, learn, adapt and refine. It is also good to complete the cycle and ensure that learning is used to inform future plans. For example, where it turns out that certain types of savings are harder to achieve than first thought, this should be taken into account in savings plans for the next year.