

CIPFA

The Chartered Institute of
Public Finance & Accountancy

leading in hard times

Guidance for everyone involved in
the leadership of public services



public services in a new climate

The leaders of our public services are about to be tested by unprecedented and daunting challenges.

There is a widespread consensus, shared across political parties and other commentators, that a plan to reduce the UK's budget deficit must be the first priority of the new UK Government.

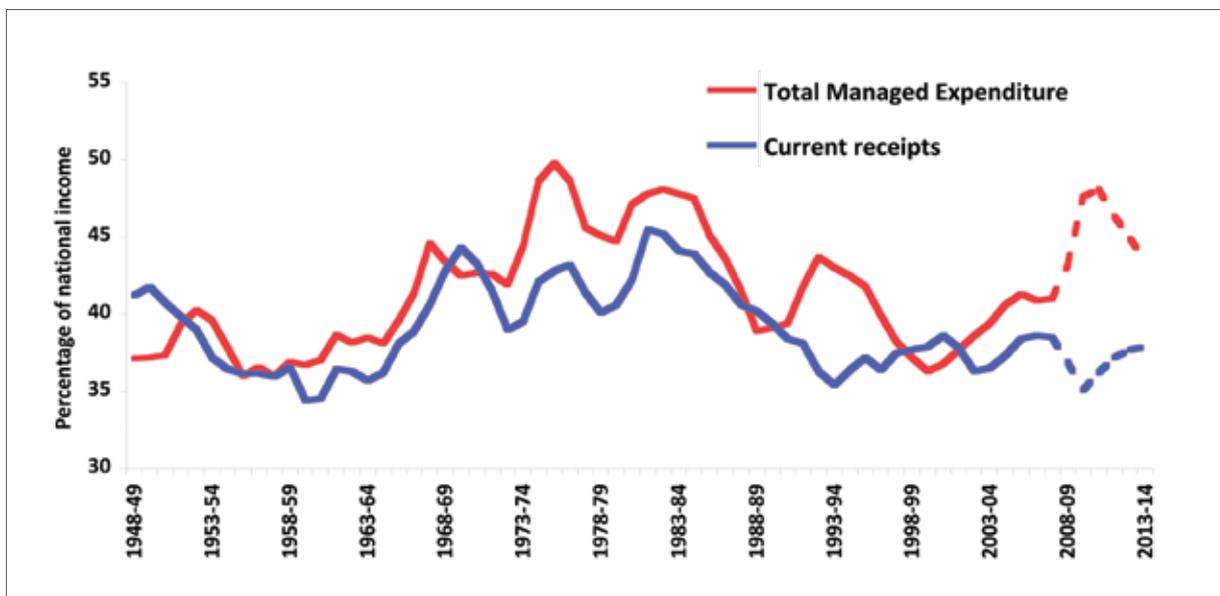
But if the challenge facing Government is clear, what of the challenges facing leaders of public service organisations – Government Departments, national bodies, local councils, NHS trust, police authorities, schools and colleges, and many more? The implementation of a national deficit reduction plan is likely to mean significant real terms spending reductions in many of these organisations. So what are the actions which their leaders should be preparing to take? What are the issues and risks they should be most mindful of as they seek to lead and manage through very uncertain times? What are the levers, tools and techniques which they should be deploying to positive effect?

Leadership of organisations in hard times poses new challenges and requires different thinking. The guidance outlined in this booklet is tailored explicitly for the very difficult conditions which are likely to prevail for the next few years. It focuses in particular on the leadership responsibilities of those in very senior roles, whether executive or non-executive. It is intended to be essential reading for Ministers, Chairs of Boards, Leaders of Local Authorities and others in elected or non-executive leadership roles, and it also speaks to Permanent Secretaries, Chief Executives, Chief Finance Officers and other Directors and Heads charged with leadership of vital public services.

after the downturn

The global financial crisis and subsequent recession has left HM Treasury with a major funding gap and rising levels of net debt. Public spending has risen to levels – measured as a proportion of national income - not seen since the 1970s. At the same time receipts from tax proceeds remain at very depressed levels with no certainty about the timing or extent of improvement likely as a result of economic recovery.

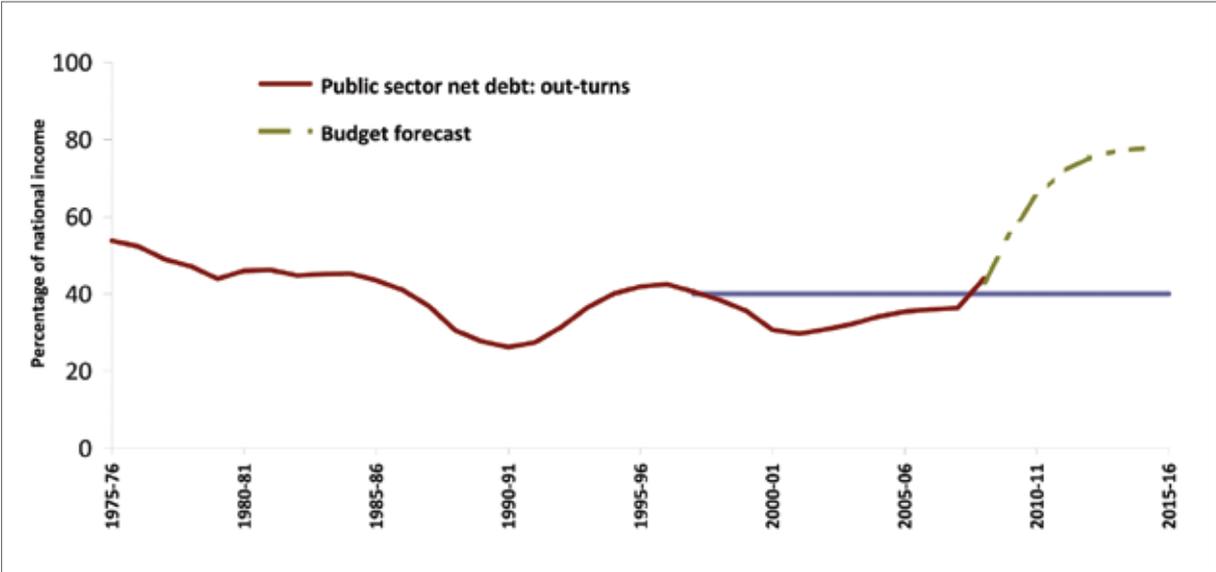
Figure 1: Total managed expenditure vs current receipts



Note: Excludes unrealised losses on financial interventions. Source: HM Treasury

As a consequence, public sector net debt is predicted to rise to nearly 78% (£1379bn) of national income in 2013-14. This is roughly twice the levels experienced and viewed as acceptable by successive governments in recent years.

Figure 2: UK Government Net Debt



A rebalancing of the public finances is therefore critical. While tax increases (some already in the pipeline) will make an important contribution, expenditure cuts are also anticipated on a scale not experienced for several decades.

Some of the retrenchment may take the form of changes to citizen entitlements (such as tax credits and out of work benefits). However, a majority is more likely to come from public bodies either doing less, or providing their services with fewer resources. That means very difficult decisions for public service leaders.

CIPFA’s joint report with SOLACE, *After the Downturn*¹, identified three strategic options which are likely to play a part, in combination, in rebalancing the public finances. They are:

- redefining the relationship between the State and the individual;
- significant delayering of the public sector with many more decisions taken locally with minimal oversight; and
- a major initiative to maximise economies by much more effective collaboration between public bodies.

1 www.cipfa.org.uk/pt/cipfasolace/download/After_the_Downturn.pdf

\ the challenge for public sector leaders

While short term actions will be needed, organisations must also ensure that they develop medium and long term strategies and plans. The overriding challenge will be to have a clear sense of the journey which must be travelled over the next few years and of the nature of the organisation and services which will emerge when a 'post-rebalancing' destination is reached.

For those in leadership positions, this is an agenda that poses a unique blend of challenges. Major long term reforms will need to be planned, resourced and implemented while also coping with near-term budget reductions. Adjustments will be required that change existing ways of working and challenge preconceived views, both within and beyond the organisation. Priorities will need to be articulated more clearly than ever before and resources allocated with greater precision.

Leaders will have to navigate high levels of uncertainty and anxiety, listening and engaging with the views of the public, service users, staff, partners and other stakeholders, and charting a way forward which is in the public interest.

creating the conditions for success

Seven key principles should underlie the way public bodies and their leaders approach the challenges of the new environment:



The principles are about setting the right tone, and creating the right conditions for the organisations to plan and execute actions which will add up to a successful response to the new climate.

1. Being pro-active and starting early

The health of the economy and the public finances, together with changes brought about by the new Government, will create uncertainty for some time to come. However, if organisations wait for perfect or near-perfect information they will wait forever. Public bodies cannot afford to delay the reviews and planning required to inform their short, medium and long term strategies. The sooner a start is made, the easier it will be to plan and manage the detailed changes required.

Early planning does not necessarily imply early implementation. A variety of factors will influence judgements about implementation timetables. But early planning will help to maximise the options available. It will also signal that the organisation has a good understanding of the challenges it faces and is actively engaged in developing policy responses.

Plans should be revisited and refined as new information becomes available and in the light of experience.

2. Getting people engaged

Responding successfully to budget challenges will demand close interactions with the public, service users, staff and other key stakeholders. Given the challenges ahead, a broad base of support will be critical. People will be aware of – and anxious about – the prospect of budget and service cuts. Many will have views about how funding reductions might best be managed.

Leaders should ensure that arrangements are in place for information and views to be shared effectively and regularly. All stakeholders should be made to feel that they can express views and ideas to the organisation and contribute to its deliberations.

Disengaged stakeholders are much less likely to understand, support and feel ownership of spending reductions made by the organisation.

3. Responding to local needs and priorities

Despite similarities between many public bodies, there is no standard template of cost-saving solutions that is right for all circumstances. Much will depend on the needs and wishes of the organisation's users and customers, the current state of its services and its strengths and weaknesses in bringing about change. The size of the organisation and nature of any partnership it is in (or could enter into) will also be major determinants.

Leaders should ensure that systematic arrangements are in place to collect both quantitative and qualitative information about the needs, aspirations and priorities of users and customers. This should be a dynamic continuous process, recognising that needs will vary as the prevailing climate changes.

4. Recognising the 'wicked' nature of the problem

In dealing with the difficult decisions implicit in reduced budgets, there will be no single, right answer. A range of stakeholders will be affected (partners, customers, staff etc) and each interest group may take a different view. Indeed, each group may represent individuals who themselves hold a variety of views. This will place particular demands on leaders, who will have to navigate a landscape characterised by high levels of concern and contested views on what to do. Leaders will need to establish an open dialogue with stakeholders and be willing to confront difficult issues. At the very least dialogue will help stakeholders to understand that the decision making is complex and challenging, and that while all views can be listened to not all can be acceded to.

5. Being open to a range of skills and techniques

The analytical, planning and change management issues involved in dealing with the challenges ahead will require a repertoire of skills, cost-saving measures and change management techniques. No single approach will be right for all challenges. In deciding what is needed and where, leaders should first be clear what they

are trying to achieve (see the 10 key actions) and what blend of methods will work best. They should also ensure that the organisation is keeping abreast of new techniques, and taking an interest in the approaches – successful and unsuccessful – which are being taken by other similar organisations.

6. Thinking creatively and acting innovatively

For many organisations, the level of savings they may need to achieve will require some radical reconsideration of ways of doing things – whether certain things should be done at all, and if so, by whom and how. In many cases the most creative solutions may lie in working with partner organisations in the public, private or third sectors. In all cases, the development of options will need to be clarified by open, creative thinking if the constraints bound up with traditional ways of doing things are to be overcome. Leaders must ensure that the organisational culture is such that it encourages radical, innovative ideas, even if they contrast sharply with existing organisational approaches, and that the organisation has the requisite skills and competencies to test options rigorously, assess their strengths and weaknesses, and recommend appropriate evidence-based actions.

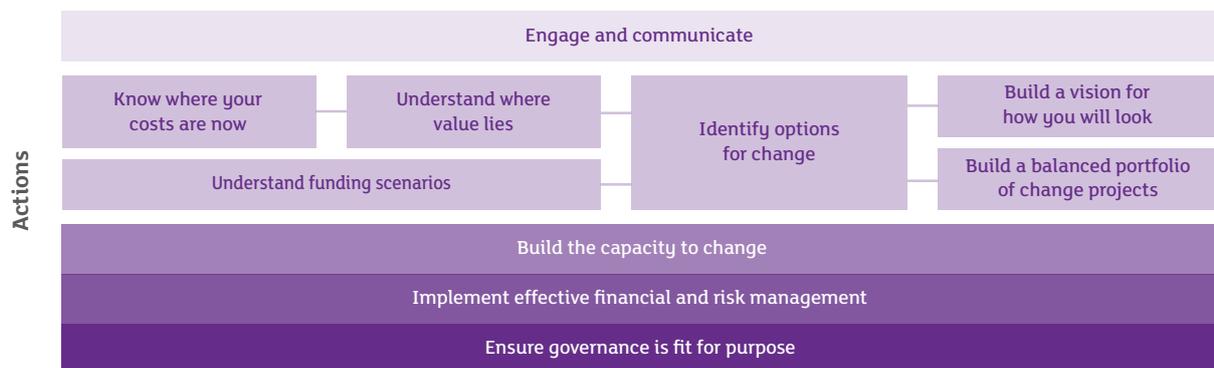
7. Having a shared understanding of what ‘efficiency’ means

Discussions about saving money are not helped by the imprecise (and sometimes euphemistic) way that terms such as ‘waste’, ‘efficiency’ and ‘cuts’ are used. As part of the effort to communicate clearly with stakeholders and to bring people along with changes, leaders are encouraged to develop a clear language relating to such matters as efficiency, cost-saving and value-for-money and to avoid unhelpful over-simplification of these terms. This should also pay dividends in terms of building trust and mutual understanding.

‘Cuts’ and ‘efficiency’ are often represented as completely unrelated concepts or opposites. In many ways it is more appropriate to regard them as different points on a continuum. In practice very few initiatives can be categorised indisputably as one thing or the other. Many will be viewed differently by different stakeholders. For example, a pupil, a parent, a classroom teacher, a head teacher and a school governor may all have different views about a decision to reduce the working hours of a school secretary.

making the right moves: 10 actions leaders need to take

Ten key actions will enable leaders to direct organisations' responses to the new challenging climate with real focus and purpose.



1. Engage and communicate – building links with all relevant stakeholders, in an ongoing effort to bring them into a fruitful dialogue about the challenges and changes ahead.

- Build a leadership team that is committed to developing positive relationships with all stakeholders.
- Meet early on with people and groups, both internal and external to the organisation, to explain the challenges ahead and to get their input into the decisions and changes that need to be considered. Be open about the scale of the difficulties faced and the range of options which may need to be contemplated.
- Put in place (at an early stage) a communications infrastructure that involves regular two-way information flows using a range of media. Ensure that all relevant groups are kept informed and that feedback is acted on promptly.
- Work with customer/citizen groups to identify priorities, as well as concerns about service change or reduction. Look for key sensitivities, ideas for reducing waste, and feedback concerning the relative value attached to different services.
- Explore with potential partners opportunities for collaborative working to reduce costs whilst continuing to meet customer needs.
- Where political parties are involved in governance, encourage cross-party dialogue to try to establish as much common ground as possible in the public interest.

2. Know where your costs are now – and how they compare with others.

- Examine the costs and budgets associated with your existing services.
- Seek to understand costs associated with your services at a finer grain 'activity' level. What factors drive these costs?

- Consider using techniques such as Zero Based Reviews, to question current expenditure and income patterns and ensure that they accord with current priorities.
- Benchmark your services (front and back office) in terms of cost and performance with peer organisations. Which are performing well and which compare less favourably?
- Share benchmarking data with relevant teams and engage them in discussions about how productivity and performance can be improved to the levels represented by the very best organisation. Encourage teams to avoid excuses for poor performance and to strive for results which are significantly better than average.
- Identify the biggest opportunities for cost reduction and/or service improvement. What would be needed to achieve significant progress in these areas? What actions should be taken now to bring these opportunities in to play as soon as possible?

3. Understand where value lies – be clear on what your organisation and its constituent departments/ units are trying to achieve and what activities make a difference.

- Review priorities. What are the organisation's current priorities? How clearly are they articulated? Have they been tested with all of the organisation's stakeholders? Is there a clear linkage between priorities and resource allocation decisions? Is the organisation clear about what is not a priority?
- Scan across service areas and be clear about the customer groups who are being served. What outcomes are being achieved for these groups? How well or otherwise do current services contribute to good outcomes?
- Where appropriate, work with partner organisations to understand the needs of customer groups in the round.
- Identify how partners might work together to address these needs better. Can the customer experience be improved and costs be reduced at the same time?
- What activities within your services are delivering real value to customers? What is not adding value and can it be eliminated or reduced, for example by using 'value adding analysis' and 'lean' management techniques to redesign processes and policies?
- Consider using 'outcome-based commissioning' techniques (perhaps in collaboration with partners), to rethink the nature of services by working backwards from a clear definition of the end goal of the service.

4. Understand funding scenarios – and what income may be available over the short, medium and long term.

- Gather intelligence about sources of funding and identify possible scenarios across all parts of the organisation using sensitivity analysis to test the implications of more optimistic/pessimistic views.
- Factor different demand assumptions into scenarios, recognising that needs and priorities will vary as the prevailing climate changes.
- Understand what these scenarios would mean in terms of impacts on services. What would the wider consequences be for other parts of the organisation, partners and the customers served if services were scaled back or cut?
- Talk to partner organisations to understand their funding forecasts in areas where common customers are served. Where are the biggest shared challenges? Where might collaboration be most fruitful?
- Be clear about the scale of savings/budget challenges faced in the short term (this year and next) and the medium and longer term (3 to 5 years).

5. Identify options for change – what can be done now and over the longer term to address the challenges ahead.

- Ensure that the organisation is well informed about and well networked with other organisations that have tested different approaches to service delivery, both in the UK and internationally.
- Identify where the availability of lower priority services could be reduced (e.g. fewer opening hours) or discontinued.
- Identify where there may be scope to introduce or to increase user fees and charges. What other revenue generating opportunities could be pursued?
- Look creatively at current and alternative models of delivery. What opportunities are there for joining up with partners to provide services in new ways? What options are there for sharing *assets* (e.g. property, technology) with other bodies? Where might *people* be shared across such bodies?
- Examine how services might be reorganised internally or with partners to improve efficiency (e.g. through shared service arrangements). Which services might lend themselves to outsourcing? Which providers might be used, and why?
- Consider whether services could be restructured to remove unproductive layers of management and increase team working. How might processes be redesigned to reduce waste and focus on areas of value-adding activity?
- How might procurement costs be reduced, for example by joining purchasing consortia, sharing contracts or producing a shared procurement service?
- Where might new technology be employed to allow greater customer self-service, automate routine processes or manage the flow of work across different work groups?

- 6. Build a vision for how you will look** – and communicate this to all relevant stakeholders.
 - Thinking about the organisation’s long term health, capacity and capability is critical. The objective should be to emerge from the era of rebalancing as an organisation that is fit for purpose, well equipped to fulfil its long term role successfully.
 - Having decided on some of the key change options to take forward, understand what this will mean for the organisation in the future (size, people, partners, structures, customers and priorities). Test whether this is a realistic, viable, fit-for-purpose model.
 - Share this information with staff and stakeholders. Explain the choices which are leading to this conclusion. Invite their views.
 - Explain how any new ways of delivering services will work and what will be required of people affected.
 - As the new vision takes shape and gains currency make sure that it is at the heart of change strategies and programmes.

- 7. Create a balanced portfolio of change projects** – which deliver the vision and reflect current and longer term needs.
 - Having selected preferred options for change, and considered them in the context of a long term vision and strategy, understand how this will break down into a logical series of change projects.
 - Map the benefits and dependencies between projects, to ensure there is clarity on what each project will do and how it will meet needs in the current and longer term, especially in relation to cost reduction. In practice it may be necessary to be working simultaneously on ‘quick wins’ alongside more complex medium or long term projects.
 - Put in place a robust infrastructure for project management and benefits realisation, with strong executive oversight of the portfolio as a whole and clear links to the annual budgeting and medium term financial planning process.

- 8. Implement effective financial and risk management** – and embed this across the whole organisation.
 - Emphasise the importance of good financial management and ensure that financial literacy is being actively developed in all departments and business units.
 - Ensure that all service managers pay close attention to ongoing costs and budgets and understand the financial implications of all of their decisions.
 - Put in place regular reviews and forecasts of income and expenditure against budgets and medium term financial plans, and ensure close links to the portfolio of cost-saving projects.
 - Ensure that risk management policies and processes are robust and regularly review spending plans and cost saving projects in relation to risk.
 - Be aware that preoccupation with change projects may have implications for risk in relation to ‘business as usual’ activities. Risk scanning must therefore focus on all of the organisation’s activities and interests.

9. Build the capability to change – ensuring that you have the skills needed to transition to, and operate in, the new work environment.

- Understand what competencies are needed in applying the analytical and change management techniques required for making savings.
- Make sure skills, capacity and other inputs (such as partnership support) are developed or acquired in line with timescales and budgets.
- Identify the skills and behaviours that will be needed in the new operating environment. Identify gaps in skills and ensure that staff are developed or that other arrangements are made to acquire these.
- Ensure that issues to do with staff motivation and morale are understood and that time and resources are made available to address any matters which are likely to undermine the organisation's performance, capacity and capability. Staff are likely to be working under significant pressure. Their resilience will be key to organisational success.

10. Ensure that governance is fit for purpose – and that systems are in place to manage and deal with the changed environment.

- Make sure that arrangements for options appraisal are set out in clear guidance to staff so that formal decision making is grounded in rigorous evidence-based analysis.
- Check that structures and processes enable cost-saving projects to be regularly reviewed and that they are clearly linked to broader financial management and goal-setting processes.
- Ensure that arrangements for project management and benefits realisation are robust and adopt best practices principles and techniques.
- Review governance arrangements as necessary in the light of new partnerships and shared delivery vehicles. Do these ensure appropriate control and liaison? Are statutory duties, including the statutory roles of specified officials, clearly understood and catered for? Is risk management properly and systematically addressed?
- Ensure that organisational culture develops in a way which is appropriate for the times - ready to embrace change and implement it efficiently with equity and transparency in the public interest.

CIPFA welcomes any feedback on this guide and is happy to be contacted by leaders who are tackling the challenges outlined. Contact details can be found at www.cipfa.org.uk, where further copies can also be downloaded free of charge.

A number of the CIPFA's business services are designed to help public service organisations to improve performance and efficiency.

These include:

- Leadership training, including the chief finance officer leadership academy
- Management consultancy on financial management and organisational redesign
- Support for collaborative working and shared services
- Performance improvement advice and training
- Value-for-money reviews and benchmarking clubs
- Better governance advice and training
- Interim management support across public service skills
- Opportunities for networking, sharing and learning.

Further details can be found via www.cipfa.org.uk/business or by calling Claire Simmons on 020 8667 8542.

About CIPFA

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. With 14,000 members, we have people working throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed.

As the world's only professional accountancy body to specialise in public services, CIPFA's portfolio of qualifications are the foundation for a career in public finance. They include the benchmark professional qualification for public sector accountants as well as a postgraduate diploma for people already working in leadership positions. They are taught by our in-house CIPFA Education and Training Centre as well as other places of learning around the world.

We also champion high performance in public services, translating our experience and insight into clear advice and practical services. They include information and guidance, courses and conferences, property and asset management solutions, consultancy and interim people for a range of public sector clients.

Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance. We work with donors, partner governments, accountancy bodies and the public sector around the world to advance public finance and support better public services.



Registered office:

3 Robert Street, London WC2N 6RL

T: 020 7543 5600 F: 020 7543 5700

www.cipfa.org.uk

CIPFA Business Limited, the trading arm of CIPFA that provides a range of services to public sector clients. Registered in England and Wales no. 2376684
