

Cost Reduction Options for the Public Sector

Efficiency of process and revenue cost reduction

Lean/Systems Thinking is an area which has a great deal of interest in the public sector and has been used in the private sector for many years. Some organisations are claiming achievement of 15 to 20 per cent savings as well as major improvements in service quality. Staff involvement in developing ideas and delegating ownership is crucial.

Procurement savings are typically focused on, and an obvious place to start. As well as efficiency in the procurement process and collaborative procurement, strong commercial style negotiation can also lead to significant contract savings.

Staff reductions are also a common feature of cost savings measures. These include:

- Voluntary redundancy.
- Compulsory redundancy.
- Termination and reduction in short-term contracts.
- Reducing working hours.
- Changing contract terms and conditions.
- Attrition. We note that this is an affordable long-term solution, but extreme caution must be taken to ensure that key (hard-to-find) skills are not lost, and that your workforce remains fit for its purpose.

Invest to save can also be used to pump-prime complex changes and where new infrastructure is required. In these difficult times, invest to save must be focused on cashable efficiencies and economy. It may be possible to identify and prevent long-term liabilities and some future expenditure growth. As an example, our review of buildings management identified an estimated £2 billion of backlog maintenance (the maintenance required to prevent deterioration of the asset beyond a given standard and which has not been given out). There are potentially substantial long-term liability reductions, with better buildings management and strategy.

Reducing costs through new service models

There is scope to make significant savings through developing new ways of delivering services. This might be either changing the way a single service is delivered or getting better collaboration between services that are closely linked together. This includes collaboration across voluntary, private and government sectors. The options include having some services that are currently provided by the public sector, provided by other organisations, like social enterprises and mutuals.

As well as more conventional PFI and Public Private Partnership (PPP) there are also innovative models based for funding new ways of addressing social problems that place a cost on public services. For example, Social Impact Bonds are a way of encouraging social entrepreneurs to develop innovative projects that are then funded from a portion of the savings to public services.

Generate new income streams

While common responses to budget pressures are to make cuts, it is also important to bear in mind the potential benefits both of a more commercial approach and also to identify new finance streams. Of course, this should not be a replacement for making cashable efficiency savings, but it is a mechanism which some public sector organisations are starting to explore.

Asset/Estate disposal and sales

The public demographic of Wales, the required services and also the innovations in delivery of services are constantly changing. It is highly likely that there is public sector property which is now not fit for future requirements. Privatisation is a contentious area. However, the public sector contains many commercially desirable areas of business. We therefore highlight this as an area which may or may not have specific interest in Wales. Mutualisation is an alternative approach for achieving citizen-focused objectives, using a potentially more flexible and more efficient business 'vehicle'. Clarity of objectives, an appropriate legal structure, risk management and financial planning are fundamental to success.

Programme and project retirement

Typically, projects are cancelled because of failure to realise designed expectations. However in the current context, some programmes and projects may now simply be unaffordable. Care should be taken not to terminate programmes and projects without consideration of their alignment to current vision, risk of over-run, their potential to generate long-term cashable savings and cost of termination. Care should also be taken to ensure the fall-out of project termination is managed at organisation, staff and stakeholder levels. Ensure that new programmes and projects and, if possible, related contacts have scope built in to reduce or terminate. This could save time and money in the future.

Priority-based reduction in services

It is far easier to develop new services than it is to retract them. Reductions in existing services are likely to be highly emotive; we've seen this many times when small schools and community hospitals close. With the extent of required budget cuts, which will have a deeper impact in later years, a reduction in services may not be avoidable. Some questions you may want to consider:

- What information do you have to identify underused services?
- What information do you have to identify whether services are no longer fit for the future?
- Do you intend to reduce, terminate or replace them with more affordable and improved services?
- Are there specific demographic needs or geographic (rural/urban) needs that might positively or negatively bias your options?
- Who are your barriers and who are your advocates?