Leading in hard times

Guidance for the public sector
Foreword

Leading in Hard Times

Whether coping with the fallout from the global financial crisis or supporting people in the aftermath of an unprecedented natural disaster, governments and public bodies around the globe must know how to lead through crises – both decisively and responsibly.

Public sector leaders in the United Kingdom, Australia and New Zealand – and indeed from all around the world – have come under increasing scrutiny in recent times, particularly around the management of public finances. Leaders at all levels of government have been challenged to balance significant demands to do ‘more for less’, while ensuring consistent performance and service delivery from individual agencies, departments and organisations.

*Leading in Hard Times* was written with the objective of helping leaders in the public sector think about where they need to focus in times of tight fiscal constraint.

The publication is the first in a series of initiatives resulting from the tripartite agreement between the Chartered Institute of Public Finance and Accountancy (CIPFA), the Institute of Chartered Accountants in Australia (ICAA) and the New Zealand Institute of Chartered Accountants (NZICA).

Our agreement covers a number of areas of strategic collaboration, including member publications, continuing professional development, products and services and mutual recognition of elements of the respective qualifying programs. The collaboration also provides the conduit for members working in our respective public sectors to share their experiences and lessons learned.

Together, we aim to transform the level of support available for public sector accountants in the Asia Pacific region.

Although initially we will produce specialised products and services to drive financial leadership in the public sector, we expect that some of the tools will also be relevant to private businesses as they, too, are challenged with leading in hard times.

We hope you find this guide stimulating and useful and we look forward to sharing more insights from our collaboration.

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The challenge for our economies

The public sector is an important part of any modern economy. Although the amount of expenditure on public goods and services varies across the United Kingdom, Australia and New Zealand, the expectation to spend public money wisely and effectively is constant. In times of fiscal constraint, there is additional pressure on public sector leaders and managers to maintain and improve service quality, but with less resource.

The financial challenges for public sector leaders and managers evident in the United Kingdom and other major nations of the Western world are being echoed in Australia and New Zealand, irrespective of their driving forces (such as the 2008 global financial crisis, changes in political leadership, and rising public spending). The recent natural disasters in Australia and New Zealand inevitably exacerbated financial and budgetary pressures.

In addition, the increasing costs associated with our ageing populations will need to be funded from a working-age population base whose size is comparatively smaller. This will mean that the immediate budget constraints being experienced now will only continue over the coming years.

Leading organisations in hard times poses new challenges and requires different thinking.

So what are the actions which our 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?

Leading in Hard Times provides guidance to help the public sectors in the United Kingdom, Australia and New Zealand respond to the increasing demand to deliver ‘more for less’. The guidance outlined in this booklet is tailored for the conditions which exist now and will continue into the future. It focuses in particular on guiding executives and non-executives facing the challenges of leadership within the public sector.
The challenge for public sector leaders

While short term actions will be needed, public sector organisations must also ensure that they develop medium and long term strategies and plans. The overriding challenge will be to create public sector organisations capable of delivering services within longer term financial pressures. Adding to the challenge is the unprecedented level of uncertainty and ongoing cycle of crises requiring public sector response.

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 constrained and reduced budgets in the near-term. 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. They will need to listen and engage with the views of a range of stakeholders, and chart a way forward which is in the public interest. Service delivery models that are more collaborative and based on partnerships and shared views of outcomes need to be implemented.

Plans and budgets need to be more closely aligned to government expectations. Public sector leaders and managers need to be able to identify and act on financial and performance signals earlier rather than later.

Overall, creating an organisational culture that values performance and seeks to demonstrate the principle of sustainable value-for-money in each day-to-day decision is a key goal of today’s leaders in the public sector.
Creating the conditions for success

Seven key principles should underlie the way public sector agencies and their leaders approach the challenges of the new environment and create a culture of delivering sustainable, value-for-money public services:

1. Being pro-active and starting early

Citizens and communities have high expectations about how governments manage public resources and the quality of services and support extended to individuals and families. They also expect the public sector to work on improving the efficiency, effectiveness and economy of their activities. 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. Effective management of budgets and services is critical, and improving government is an ongoing task. 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 and budgets need to be linked. Budgets should be the financial representation of the plan. 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, other government agencies, other levels of government 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 re-prioritising budgets and services. 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 re-prioritised spending proposals 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 – focusing on outcomes. 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 constrained or reduced budgets, there will be no single, right answer. A range of stakeholders will be affected (the public, service users and customers, staff, other government agencies, other levels of government, service delivery partners 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 demand by government to continue to deliver quality services within constrained or reduced budgets 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 developing partnership approaches with 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 ‘value-for-money’ 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.

Linking operational and service delivery plans and measures of quality and performance with budgets is a starting point for developing this better understanding.

‘Cuts’ and ‘efficiency’ are often represented as completely unrelated concepts or opposites and are considered in isolation of service standards and outcome performance. In practice very few public sector initiatives should be viewed through the financial prism alone. They must be considered against the service standards and outcomes expected by citizens and the community. Many initiatives will be viewed differently by different stakeholders.

For example, a patient, a family member, a nurse, a surgeon and a hospital administrator may all have different views about a decision to reduce the working hours of a hospital administrative officer.
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** – build 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. For example, engaging with internal policy, program and service delivery areas to ensure they are alert to budgetary pressures and financial risks early in the policy development process – not once the policy is being implemented.
   - 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 while continuing to meet customer needs.
2. **Know where your costs are now** – what drives your costs and how do 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 and process and activity reviews, to question current expense 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 that 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 into 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.
- 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 funding 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 (three to five 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, in the United Kingdom, Australia, New Zealand and elsewhere.
- 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 staff be shared across such bodies?
- Examine how services might be reorganised internally or with partners to improve efficiency (e.g. through partnerships or 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 teamwork. 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 that 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 programs.

7. **Create a balanced portfolio of change projects** – that 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 these 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.

- Identify where asset management can be improved to extend the useful life of assets, reduce maintenance and operating costs or enhance asset utilisation.

- Put in place regular reviews and forecasts of income and expenses 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** – ensure 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?
- Review internal control arrangements to ensure that controls are effective and efficient and support a culture of accountable and transparent decision making.
- Ensure that organisational culture develops in a way that is appropriate for the times – be ready to embrace change and implement it efficiently with equity and transparency in the public interest.
About us: CIPFA, ICAA and NZICA

The Chartered Institute of Public Finance and Accountancy (CIPFA)

CIPFA is the professional body for people in public finance. Our 14,000 members work 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.

Our portfolio of qualifications is the foundation for a career in public finance, and we champion high performance in public services by translating our experience and insight into clear advice and practical services. As the world’s only professional accountancy body to specialise in public services, CIPFA stands up for sound public financial management and good governance around the world.

The Institute of Chartered Accountants in Australia (ICAA)

ICAA is the professional body representing Chartered Accountants in Australia. Our reach extends to more than 67,000 of today’s and tomorrow’s business leaders, representing more than 55,000 Chartered Accountants and 12,000 of Australia’s best accounting graduates currently enrolled in our world-class Chartered Accountants postgraduate program.

We work in the public interest, aiming to lead the profession by delivering visionary leadership projects, setting the benchmark for the highest ethical, professional and educational standards, and enhancing and promoting the Chartered Accountants brand. We draw on the experience of our members to work with government, industry, academia and local and international bodies on public policy, government legislation and regulatory issues.

New Zealand Institute of Chartered Accountants (NZICA)

NZICA is the membership body of choice for over 33,000 accounting and business professionals, working around New Zealand and across the globe. Our members hold one of three prestigious professional accountancy designations: Chartered Accountant (CA), Associate Chartered Accountant (ACA) or Accounting Technician (AT) and work in public practice, the public sector, educational institutions, and in corporate and not-for-profit organisations.

As an organisation NZICA is focused on championing the accounting profession and nurturing the next generation of business leaders. We act in the public interest by advocating sound public policy in financial, regulatory and taxation areas, delivering training and continuing professional development, regulating the profession, and promoting quality, integrity and expertise.
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