Preparing for a tightening fiscal environment

Purpose

In the current tightening fiscal environment the Government may look to reduce the size and cost of the Public Sector. This paper suggests ways for Public Sector leaders to respond to this challenge which go beyond reactive cost-cutting in the short-term.

High-level response

Now may be a good time to identify and assess options to reduce the size and cost of your agency so you are prepared to lead discussions with your Minister(s). Preparation will enable you to show that you understand the challenge and have looked widely across your agency for solutions.

Where do we start?

There are four general approaches to reducing the size and cost of public services. These can be used as a framework to help identity a long list of down-sizing/cost reduction options:

1. **Reducing or stopping low value services**

   The focus for reducing or cutting low value services should be on discretionary services – those not required by legislation or regulation, directed by Cabinet or Ministers, part of a coalition agreement, or a Government priority.

   Identifying low value activities and services can be identified by considering:

   - Strategic alignment – what contribution does this make to the strategic objectives, priorities and targets of the agency, and to wider government or sector goals?
   - Benefits – what financial and non-financial benefits does this provide to customers, stakeholders and the agency?
   - Costs – what costs and resources are used and how does this compare with other activities or services?
   - Enablement – does this enable other initiatives, and does this have strategic value and benefits?
   - Internal support activities – are we assessing these as well as external activities and services?

2. **Modifying services**

   It may be possible to reduce costs by modifying the range, quality or delivery of existing services (including statutory functions). Opportunities can be identified by considering:

- Range and quality – could we reduce the range or quality of services offered? What impact will this have on achievement of business objectives, customer satisfaction and meeting our legislative obligations?
- Delivery – what other changes could we make to the way we deliver services? Would these changes reduce resources and costs? What impact would this have on the quality of the user experience and customer satisfaction?
- Deferring or putting initiatives or programmes on hold – are any of our current or intended initiatives or programmes not time-critical? Could some be slowed down, or deferred and be re-started again in the future?

3. Realising efficiencies

Operational efficiencies may lead to reduced staffing levels and/or cost savings. Opportunities may include:

- Simplifying processing – are there opportunities to reduce staffing and costs by simplifying or centralising processing? What impacts would this have on accessibility and quality of services?
- Managing workloads – are there opportunities to reduce staffing levels by actively managing workloads across the agency to match with available capacity and skills?
- Closing high-cost operations – all organisations with dispersed operations have a range of cost profiles across different sites – could savings be realised by closing high-cost offices or moving activities to lower cost offices? What impacts would this have on accessibility and quality of services?

4. Cost-cutting

The fall-back option is often to undertake a general cost-cutting exercise aimed at reducing "discretionary" expenditure. However the impact of years of inflation and fixed financial baselines may mean opportunities to reduce discretionary expenditure are limited. Moreover, savings are unlikely to be sustainable into the future, may impact on the efficiency and effectiveness of the business, and are likely to reduce management buy-in and staff morale.

However, to complete the picture, opportunities for cost-cutting may include:

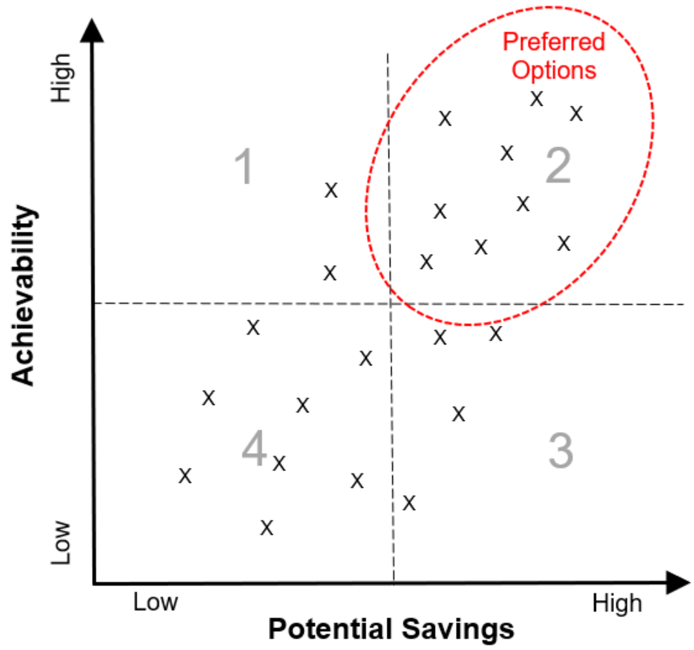
- Projects – does your agency have a large number of projects? Is it possible to cut back, defer or stop non-critical projects?
- Capacity – has demand changed for some services and is there surplus capacity in some areas which can be redistributed or cut back? Can surplus capacity be managed through attrition, or would redundancy payments be required?
- Support costs – typically include items such as: travel; training; contractors and consultants; and conferences and seminars. Questions to consider include how will this impact on the business? What are the long-term impacts?

How do we agree preferred options?

What will work best for each agency is highly context sensitive. To identify the best options it may be useful to assess the long list against criteria such as:

1. **Potential savings**
   - Are there possible cost savings and how would they be realised?
   - How large are the potential cost savings?
   - How quickly can savings be realised?
   - Are there long-term costs that need to be offset against savings?
2. **Achievability**
   - How difficult will it be to realise cost savings?
   - What will be the impact on the quantity, quality or scope of services?
   - Will the organisation be able to meet its service delivery targets, government policy expectations and/or international commitments?
   - What will be the impacts on business operations and can these be managed?
   - What are the potential risks of adverse unintended impacts and can these be mitigated?

To support decision making, leadership teams could agree a short list of preferred options based on achievability and potential savings. The diagramme below illustrates how you could think about this process:



The preferred options are likely to be in quadrant 2 – these are the most achievable and have the highest potential savings.

What next?

Your leadership team should lead discussions on preferred options with your Minister(s) and be prepared to make adjustments to reflect Ministerial preferences and Government priorities. Once decisions have been made, a high-level implementation plan can be developed to implement the preferred options. The plan will identify tasks, how they will be achieved, resources required, deliverables and timeframes.

Other things you may want to consider include:

1. **Ask your people.** Your staff may already know the most effective options, but these may not be visible to you. By asking your people how your agency can be more financially sustainable, you are not only leveraging the collective wisdom and experience in your agency but also sharing the challenges of a much tighter fiscal environment.

2. **Copy from elsewhere.** Talk to other agencies who have successfully (or not!) taken initiatives in areas that you are considering. Learning from hard-won experience and avoiding costly mistakes can be an easy short-cut to more cost-effective ways of operating. Unashamedly borrow, copy or duplicate what other agencies have successfully implemented! Now is not the time to experiment with high-risk approaches.

3. **Spend less, invest more.** In recent years the most pressing concern for some public sector leaders has been the risk of failing to deliver and losing the confidence of Ministers. It may now be useful for these agencies to take a 'spend less, invest more' approach by pivoting to a targeted investment approach which focuses on the effectiveness of spending. By doing this and scaling back or ditching ineffective initiatives, agencies may be able to reduce costs and be more effective.

4. **Set targets and realistic timelines.** Setting specific targets and assuming this will take longer to achieve than expected is more likely to ensure your agency stays the distance and delivers sustainable changes to your cost structure.

5. **Be ambitious and action focused.** Ensure that any programme you initiate leads to decisions and actions that deliver the changes required. Don't equate analysis with action, or be paralysed by uncertainty, getting unanimous agreement or unpopular decisions.

6. **Ensure that changes will actually deliver cost savings!** While productivity gains can enable more to be done with existing funding, this doesn't always result in cost savings. Ensure that whatever changes you make actually deliver cost savings.