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Written by Stephen Hughes for CIPFA

INSIGHTS
for public financial management

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About the author: Stephen Hughes

Stephen Hughes wrote this paper whilst he held the post of strategic adviser to CIPFA on local government. He acquired this role after leaving his post of Birmingham City Council Chief Executive in February after eight and half years.

At Birmingham he led the ambitious Business Transformation process and drove the Council's commitment to the local economy. Prior to that Stephen's career was in finance, having led the Finance function at Islington and Brent and gone to Birmingham as Director of Resources. He has also been a finance policy officer at two local authority associations and spent a year on secondment managing Council Tax and Business rates policy for the then Department for Environment Transport and the Regions (DETR). Apart from CIPFA, Stephen has a number of other roles including as a Board Member of Housing and Care 21.

\ context

Local authorities face unprecedented financial pressures. The demands on them to spend less money have never been greater. This is at a time when demographic pressures and public expectations are also on the rise. Spend is dominated by social care, where the scope for savings is apparently limited and the tolerance for failure is close to zero.

Despite this, local government has risen to and met the challenges it faced. Very significant reductions in spend have been achieved and public satisfaction with services has increased. Space has been found to increase investment in children's services where public scrutiny is greatest. Although eligibility criteria have been tightened, the needs of older people and those younger adults with health and social care requirements have been met.

How has this been done? What is the scope for further reductions in spend? What could have been done better? This piece explores the various methods that local authorities have adopted to save money, raises issues that need to be addressed and what has to happen next.

\ categorisation

To try to make sense of the bewildering array of initiatives and approaches that have been tried I have put them into one of six categories:

- Slash and burn – cut what you can without too much thought for the future.
- Generate more income – maintaining spending by finding alternative funding streams. This can be from simply increasing charges to fully commercialising a council's approach to all it does.
- Be more efficient – do much the same things or at least try to achieve the same outcomes, but with less inputs. There are a wide variety of approaches under this heading from small incremental improvements to rethinking and transforming the way services are delivered.
- Get someone else to do it – maybe it would just involve outsourcing, but also collaboration with other public agencies and even harnessing residents' capacity to contribute.
- Have less to do – reduce the need for expensive crisis intervention, which characterises much public sector activity, by investment in preventative initiatives and also wider work to raise living standards.
- Finally, do less – reduce service lines provided or the quantity of service, hopefully in line with policy priorities.

There are inevitably overlaps between the categories, but it is a useful lexicon. Let's explore.

\ slash and burn

I have deliberately used a pejorative term for something we have all done. It is saving money where we can, because we can, without overly thinking its purpose. For example, in response to the National Audit Office's (NAO) report on the financial sustainability of local government, Local Government Minister Kris Hopkins said: "there is still much councils can do to cut waste and make sensible savings, such as using their reserves, making better use of surplus public assets, clamping down on fraud, boosting council tax collection rates and sharing back offices".

The usual targets are things like: 'the back office', management whether at the top or in the middle, increasing charges, freezing pay and cutting terms and conditions of employment, selling assets and cutting spend on preventative services like planned road repairs and planned property maintenance.

Some of these save considerable sums of money, generally they can be done quickly and have small impacts on immediate levels of service delivery, but they all generally have poor longer term consequences.

For example, cutting planned maintenance leads to increases in more expensive patching repairs in the future whether that's more leaky roofs or bigger pot holes and more claims for damages. Cutting management arbitrarily reduces organisational capacity for change. Reducing staff terms of employment whether pay or otherwise undermines morale, increases turnover and reduces productivity. The back office does inessential things like pay staff and collect income and support the front line without which nothing would happen. Some assets should be sold, but they also provide the infrastructure that lets services operate

Another risk with this unthinking approach is that some of the obvious things to cut don't save very much, but absorb considerable effort to achieve, which is a diversion from the efforts needed to achieve savings in other less disruptive ways. This is particularly true of changes to staff terms and conditions, where the extensive consultation and cumbersome processes can keep the whole HR department occupied for months. Is that really the best use of such scarce resource? The Department for Communities and Local Government (DCLG) produced a document called 'Fifty ways to save money' which was intended to give the impression that the whole of the spending challenge could be met with such tinkering, but with a few exceptions it was like a raindrop in the desert.

So, while we all do it, it saves money quickly, it apparently protects the front line and avoids public opprobrium, in the long-term slash and burn can increase pressure for spending, cuts the capacity for further change and diverts attention from a more planned systematic and sustainable approach.

generate more income

If grant has been cut and local taxes can't be increased a second natural approach is to find alternative sources of funding or get more out of existing income streams. Every council will have done a review of its fees and charges. Most will have a policy of charges to recover cost unless without good cause. Some will have implemented such policies robustly and with vigour. For example, ensuring that all costs have been appropriately recharged, that fee rates are set to maximise revenue (not always the same as high as possible) and are kept under regular review. The Chartered Institute of Public Finance and Accountancy, CIPFA, has produced guides about how to do this most effectively, which are available on our website.

Under financial pressure councils have been increasingly innovative in maximising existing income sources and generating new ones. Some have been particularly active in property, either by capturing income streams from regeneration projects or simply by buying assets that have attractive yields. Considerable money can be made in this way, stretching the use of a range of powers.

But there are many ways that councils can raise income from its services and assets. For example, take a service like public parks. They can be hired out and franchises sold for use of assets like cafes that are in them and charges can be raised on activities organised in them. So, why not set a target that parks are entirely self-funding? Can this principle be applied to other services?

The point about that example, more than anything, is about the mind-set with which generating income is approached. Typical public sector thought is that public services are and should be free at the point of use, and if the taxman (local or national) doesn't supply the money the service has to be cut. Indeed the value of public services is largely measured by how much is spent on it and not the outcomes from funded interventions.

So, for councils that are embracing 'commercialism', which CIPFA supports, it ultimately becomes a matter of cultural change and importing of the kind of commercial skills that drive the private sector. These include a relentless focus on cost cutting, process improvement, good customer experience, product innovation and value added. Ensuring that the whole organisation is thinking about the product and the impact for the least possible cost is key to dealing with financial pressures in every service.

An important area where these skills need to be applied is around procurement. Public procurement systems can be too often set up to prove probity rather than deliver value for money. Far too often the public sector sees procurement as a legal and assurance process where compliance with EU law and internal contract procedures is the objective. A commercial approach would be far more concerned with outcomes, commercial terms, how the contract will develop and adapt over time, the chemistry between the supplier and the business and other intangible factors. More and more councils are seeing procurement not only as a key way of reducing costs but also as a means to achieving other objectives conditional on the contract and factoring in ways in which commercial goals can be supported.

be efficient

Efficiency has been the watchword of austerity, although to be fair it has been central to local government for thirty or forty years. From Crossman's last orders at the party, the rise and demise of the Audit Commission, through Compulsory Competitive Tendering (CCT), via a Best Value duty, and targets galore before we reach the new austerity. Local government has been good at it and even now is finding new approaches to continue to squeeze value out of the public pound.

The more recent focus in efficiency savings has been about cutting overheads, increasing productivity and streamlining process to keep back office services to a minimum.

In that context shared services, while not new, has become more important. The concept of sharing a workforce to deliver services has been given greater impetus. The benefits come in the main from reducing management, property, IT and other overheads, so it isn't surprising that anecdotal evidence suggests this has been something embraced more by Shire districts than other types of council because of their smaller on average size means overheads loom larger in their cost base.

Under financial pressure ways of working have been changed. There has been greater use of elements of pay related to performance and embracing more mobile working, which all improve productivity and reduce the costs of supporting staff numbers. Property assets have also been sold to realise capital receipts and also to reduce costs while improving staff conditions.

More importantly, thought is being given to the purpose of services. More effort is being put into their redesign, so that while purpose is maintained institutions or traditional methods are not. For example, in customer services there is much more emphasis of dealing with issues once as in 'right first time' and in promoting channel shift so the public access services in ways that are cheaper for councils to administer – ending cash offices, pushing use of internet. In services, such as adult social care, there has been significant disinvestment in high cost inflexible service models, such as residential homes and day centres, and a shift towards direct payments and commissioned services that can be better matched to each individual's needs.

As with commercial skills, the best councils have embedded the approach systematically. For example, the widespread use of 'lean' and its derivatives by every team in the council helps multiple process improvements continuously. This stretches all the way through standard techniques, such as 'zero based budgeting', and service reviews to transformational methodologies that some places have adopted to apply to all business planning. Changing culture reduces resistance to change, gets more people engaged in making it happen and produces better results than traditional top down planning and 'salami- style' cuts.

I think that there is one other aspect of the way that we have constructed public services in this country that needs to be examined in detail – how we have built mitigation of system failure risks on top of service delivery. Have we so over designed our public service delivery systems that vast professional resources have been absorbed in managing risk of failure reducing productivity and raising cost? Arguably in consequence, we are now cutting services rather than tackling the redundant systems that we have put in place.

However, we persist in the belief that ‘it can be fixed’ so that ‘it never happens again’. This manifests itself by increasingly complex rules and regulations about how things must be done and by placing increasing reliance on the assurance of professionalism and qualifications. Local authorities have ended up with over 1500 specific duties many of which are not about outcomes they need to provide, but processes by which they need to provide them. There is a premium placed on control and recognised authority at the expense of the value of context and experience. Almost inevitably, I think the consequence is to create the next failure in the redesign that dealt with the last.

Instinctively, I think this is the case. There is a broad consensus that public service reform should empower the front line, promote coproduction with communities and enable co-operation between workers of different public agencies. Somehow, the systems and rules legislate against the trust needed to make this happen. The consequence is that we devalue the contribution of our many vastly experienced, but unqualified staff and require their recommendations to be reviewed, re-examined and endorsed by layers of expensively trained professionals. In the process of checking and double checking the work of others, they are diverted from what they were trained to do and for a significant part of their time become part of the bureaucracy.

So while I can’t quantify it, I’m convinced that our approach to risk management has added cost without significantly reducing the risk of failure. That risk is better managed through the culture of organisations and by proper accountability, rather than over design and rule based prescription. This is an area of efficiency that hasn’t yet been sufficiently explored and has the potential to make significant contributions to savings.

\ get others to do it

There is a spectrum of solutions that is about having services delivered in part or completely by others, each of which contributes differently to the financial pressures. Broadly, the approaches can be:

- outsource provision to the private sector
- outsource, or partnership or collaboration with other councils or public sector institutions
- spin out services or delivery arms to Wholly Owned Companies, WOCs, staff controlled or influenced mutuals, and charitable trusts
- co-production asset transfers with and to service users, residents and third sector organisations.

Outsourcing

Councils outsource for a number of reasons. Frequently, it is to access expertise that the council itself could never afford to carry on a permanent basis. Typically, these are specialist consultancies that help deliver large and often one off projects. This might be related to capital spending, or to change management initiatives. Often this type of purchase of private sector capacity isn't even considered to be outsourcing, but technically it clearly still is.

Further down the spectrum is to access investment. This was most prevalent before prudential borrowing when council's access to capital funds was limited. Outsourcing a service could gain capital investment and change otherwise difficult to achieve especially with services like IT. Post prudential borrowing outsourcing for capital is most closely related to private finance initiative deals (PFI) where it is a condition of the government grant that makes the arrangement affordable.

Related motives are about improved management, access to scale of provision and risk transfer on savings or service standards. Private sector companies providing transaction based services to a number of different councils can achieve benefits from services integration and shared overheads that councils on their own cannot. They can provide part of a service from a remote location where access to needed skills is easier or staff and other costs are lower. Outsourcing can provide certainly about savings targets and service delivery standards if the incentive regime is right. Improvement in management is a strong motive. The costs of managing contracts is frequently far less than the costs of direct management of staff and resources, so councils can save overhead costs from transfer of services to other providers.

A particular form of outsourcing is the strategic partnership. Typically, a core set of services is outsourced to give substance to the arrangement but the key benefit being sought is a common approach to significant transformational change to delivery step change in benefits – both in terms of service quality as well as savings. These arrangements have a mixed history. There is no doubt that some have delivered value especially at the start when enthusiasm is highest. However, once the initial planned benefits have been achieved it seems to prove difficult to refocus the partnership on the next phase.

Some of this, as a practitioner, I think comes down to way in which outsourcing has been traditional carried out and the form of the contracts that are consequently delivered. Driven by the process basis of EU and British procurement law, councils typically ask for a price and detailed method statements to evaluate bids against a given service specification. In my personal opinion, the desire to know exactly what is going to be done, at what standard for what price is reinforced by an inherent mistrust by the public and councillors that partnership cannot be reconciled with the profit motive of private firms. These rigidities are not well suited to a period of austerity where flexibility and change are the order of the day.

The risks associated with this kind of rigidity and with the problems that come with longer term relationships are barriers to effective public private partnerships. There is perhaps a need for a new type of contract for these times – one where the council can specify what it wants to spend each year and the form of bid demonstrates an incremental approach to pricing so both sides know in advance how variations in payment will be managed.

Public partnerships

Joint delivery of services with other councils and other public agencies is not new either. Legislation envisages councils working together through powers to establish joint committees or delegate service delivery from one council to another. Many places have signed s75 agreements with health authorities to deliver jointly a range of caring services. Statutory partnerships exist to manage services such as crime reduction, youth offending and child safety and place a duty on a range of public agencies to work together to achieve common goals.

Recently, the emphasis has been on shared services. In the past when authorities wanted to achieve benefits from integration political union was the method, for example: the creation of the unitary county of Shropshire from a typical county council and Shire district model. Increasingly though, there are examples of sharing services without political union. The best example I have seen is South Oxford District Council and the Vale of White Horse where in effect there is now just one management and one workforce serving two councils.

One motivation is to achieve the scale that outsourcers achieve through winning several contracts, yet providing services from a limited number of centres, whilst retaining bespoke service standards and methods. Why shouldn't councils be able to do the same themselves, make the savings and the profit? Along that road are attempts to join up service delivery sometimes top down by sharing chief executives, sometimes by creating joint shared service hubs and often within a much greater ambition, such as stated by the tri-borough initiative in London.

The move to share services in this way is not inexorable. Councils still find it very hard to explicitly share sovereignty and where it has been done it can rely overly on the personal relationships of individual leaders. However, officers also put up barriers. Where several similar services are to come together that will depend on commitment by current managerial leaders, all but one of whom will lose out from the new arrangement. Where different services are to work together across institutional boundaries, poor communication and other significant barriers must be being identified and implemented.

One variant of shared services pursued by some councils is the establishment of a shared service centre, populated initially with the council's own services with an ambition to sell services to other public sector providers, including other councils. These initiatives are more successful where several councils have come together to set it up to give it some initial mass. However, they all find it hard to flourish, as councils not part of the original arrangements resist giving their business and its benefits to other places even to the extent that they prefer private sector contractors offering much the same.

The biggest test of this is about to happen. Department of Health (DH) has backed the move to integrate Health and Social care and created the Better Care Fund (BCF) as a catalyst to help it emerge and given the responsibility to the Health and Well-being Boards to govern and deliver integration plans. This is over £3bn of public money and the imperative of getting it right comes because this is not new money, but is in fact already in health funding yet has been counted by DCLG as local authority spending power as well.

It is very reminiscent of the Local Strategic Partnerships that were established over fifteen years ago. These were essentially voluntary arrangements of public agencies asked to work together to produce strategic plans for their area and in some places to manage Neighbourhood Renewal Funds or its successor Working Neighbourhood Fund. The strategies would frequently be ambitious, but the plans poorly designed to deliver the desired outcomes despite the range of targets that the partnership was held to account for by regional offices.

There were several causes of their poor achievements. The partnerships focused on the small amount of money that was new and additional, rather than the vast mainstream funding that each agency was spending. Agencies responded to the priority tugs of their national funding department when there were conflicts in priorities rather than the priorities set for the area in which they worked. Co-operation between agencies was highly dependent on personal relations between leaders and there was little interaction let alone integration at lower levels within organisations. At the first sign of pressure and difficult decisions it was all too easy for individual agencies to walk away because the governance was dependent on volunteer collaboration.

The stakes are much higher this time and failure will lead to cuts in adult social care and over spends by Clinical Commission Groups (CCGs) and Acute Hospital Trusts. The same principles seem to apply though. BCF plans should also be about mainstream spending and deep thought about how to change existing ways of working to deliver real integration. There are clearly savings to be made through preventing unnecessary hospital admissions, joint assessment of care needs and single records of care as well as less significant factors like shared buildings and support. This is probably going to need stronger governance than a voluntary partnership. Some of the s75 agreements have shown how pooled budgets, single management and enforceable contracts can deliver significant savings and improvements in service quality. A similar approach is going to be needed if integration of health and social care is to be achieved.

Companies, mutuals and Trusts

There has been a growth in councils setting up Wholly Owned Companies (WOCs) mutual companies owned by staff and transfer of assets and services to Trusts. These save money and deliver benefits in a number of different ways.

The main motivation behind WOCs is to create an entity that can compete with the private sector either for private work or for work from other public entities. A wide variety of services have been set up in this way, but generally they will be delivering contingent elements of service usually with a technical component. For example, services like building control are contingent on planning policy and law. Even something like domiciliary care is contingent on care packages that have been agreed. A successful WOC will maintain employment avoiding redundancy and other costs associated with cuts and may deliver a new income source to the council.

Some similar considerations apply to staff mutuals, although another dimension is that the services are ones that a local authority no longer need directly provide themselves. For example, local authorities no longer need to provide services to schools such as building maintenance and cleaning, school meals or support services like IT, HR or finance. The budget and responsibility has passed to schools themselves to acquire these services even for schools that have not yet become academies. In these circumstances why continue to carry the risks of managing such services? Better to set them up as arms' length entities and even better to give staff a direct incentive to make the entities work by establishing them as mutuals.

Different motivations typically are associated with the establishment or transfer of assets and services to Trusts. One strong motivation used to be business rates, where the granting of exemption would largely be borne by all other local authorities. Now, with local authorities having retained business rates that incentive is much less powerful. It is more likely to be about the ability of trusts to access funding streams that local authorities can't.

Typical services set up in trusts include cultural assets, leisure facilities and even libraries. Some councils will resist this type of arrangement, as they don't wish to cede power and control over assets. However, the subsequent ability to pass the request to find savings onto someone else may make them more attractive.

The benefits of these approaches are modest, but relatively assured especially where the key motivation is about transfer of risk to other entities. There are some limitations though. For example, there are limits on the extent to which even WOCs can trade dependent on the scale of their business with the local authority. Ultimately, it may be necessary to float the company and let it fully enter the private sector of it is to fulfil its full potential.

One of the difficulties in creating mutuals is the restrictions on the way 'work' can be transferred at the point of creation. Where there is little competition, such as a music service for schools, it is less of a difficulty. Many arrangements between local authorities and schools are not formal contracts, so novation of these arrangements may not be caught. The demise of the Audit Commission is a good case study though, as the desire to recreate a mutual District Audit service was partially stopped by the requirement for the new entity to compete with established private audit firms for the work, which meant that the risks were too great for some buy out process to work.

Changes to EU procurement law, which the UK government is due to adopt soon (if not already done so) gives public bodies the potential where they are tendering certain types of work for the first time to limit bidders to the mutual form. This will make it easier to spin out mutuals from public agencies and reduce the risks while they get themselves established.

Co-production and the big society

All public services are co-produced with service users to some extent or other. Take something basic like refuse collection. Even in the halcyon days when the bin man came to your back door and carried the bin to and from the refuse truck, the resident still had to put their rubbish in the bin. Now, typically, the wheeled bin has to be delivered to the roadside on the correct day, not overfilled as the truck won't be able to lift it, and with the refuse stream already sorted between different types of recyclates and residual waste. However, that is not an immutable line – perhaps we could ask citizens to place their waste in communal containers or deliver it direct to the disposal plant. Indeed it need not even be a public service. In some places at least in the United States for example residents have to arrange for their own refuse collection and pay for it.

The boundary between what the state does and what we expect people to do for themselves is constantly changing and evolving. What hasn't happened in a systematic way is an engagement with service users to help design both how the service is put together and where to place the boundary. There is however extensive academic work done on the subject and a range of specific and powerful examples. For example, there is a Swedish medical example where a particular clinic redesigned how it operated to make patients central to the process of providing medical care by for example engaging the patients support network (family and friends). In that way, basic tasks like ensuring that medication was taken, with failure to do so being a major contributor to repeat admissions and continued ill-health, were more consistently achieved, patients' recovery improved and costs contained.

The potential is enormous, but as yet we have to see co-production design implemented systematically on any scale. Understanding and tackling the barriers may well be important to unlocking big savings.

One area where there have been attempts to shift the boundary by design has been libraries. In some places, particularly in smaller population centres, the threat of library closure has led to a community response to provide sufficient volunteers to keep it open. In more density populated areas plans to use volunteers have met more resistance from staff and Trade Unions who see this as a move to attack staff and de-professionalise the service.

Pretending that volunteers are only complementary and not a substitute makes changing the boundary more difficult, but it needs to be done.

Other issues also need to be addressed. The transfer of assets and other public resources brings with it a need to be accountable. In many places communities may well be willing to take on more responsibility for running community centres, leisure centres, allotments, parks and open spaces and other facilities, but are daunted by the accountability requirements – the policies and procedures that have to be put in place, the tests of fitness and probing into people's personal lives, the need to demonstrate capacity and a track record. Conversely, local authorities may well be willing to transfer assets and resources, but want to be assured that the groups that take this on are representative, they should not be interest groups and cliques, but must have the capability of meeting the legislative requirements.

In some cases, where there is popular demand and capability to take on the delivery of some services to do so may convey democratic credibility, but not make administrative sense. Breaking up contracts into penny pot schemes, so as to allow each neighbourhood to procure and manage its own grounds maintenance, refuse collection, street sweeping services, threatens to remove all the economies of scale in both procurement and delivery making the services that much more expensive to deliver. So, while making a service more responsive to local needs is something everyone would agree to, achieving it in a cost effective way once costs of accountability and loss of scale are taken into account can be very problematic. In my personal opinion, I am inclined to think that there is a role for town and parish councils in this space, particularly in more urban areas. They bring systems of governance and accountability with them that higher tier authorities can have confidence in, but are capable of being responsive to local demands.

However, co-production doesn't have to be approached just in that way. Another example was the change to home to school transport in Sutton. Home to school transport for pupils with disabilities can be a very expensive service, even if essential. Sutton had systematic conversations with parents to persuade them of the need to reduce costs and explicitly move the boundary of responsibility on an individual basis. For example, some parents were willing to take their children to a central point for collection so that demands for transport could be reduced. Other councils have followed this lead.

In my view, I have scarcely touched the surface, and CIPFA would support exploring all options for reducing expenditure and challenging service delivery for improvement. The point is that there is much greater potential for saving the money needed to protect vulnerable people through co-production than is commonly believed and so far achieved. It does take time to design and implement and there are a lack of good methodologies. It has been undermined by being applied in only small areas of spend, linked to cuts in staff and conditions of service, overloaded with accountability issues, all of which have pushed it down the scale of options to explore. Clearly it should be higher up that scale.

\ have less to do

Much public spend is designed to provide help and support to people in crisis or to keep them out of otherwise imminent crisis, I am thinking of much welfare support that falls into the latter category. Some is designed more importantly give people the strength and aspiration to support themselves and prevent the need for crisis intervention, to keep people healthy rather than treat ill-health or to have them in work rather than depending on state benefits. Investment in prevention can save money as crisis interventions tend to be expensive and long lived.

An important approach to prevention in its widest sense is what local authorities are doing to promote the economic growth of their areas, grow the skills of their population and support them access employment. That, however, is another presentation in itself. Instead, let's just look at service specific approaches.

I think there are three separate sets of approach to consider. The first is long term interventions, designed to maximise their effects on individuals, and especially children, in several years. The second are just in time or late interventions that aim to prevent continual crisis support. The third, closely related to the second, is about treating the issues people have holistically and not individually.

There is lots of evidence that small interventions before children are born and throughout every stage of their life can bring very significant benefits. Children develop better social skills and exhibit less behavioural misconduct, they have better education outcomes and are less likely to get involved in substance abuse, crime and other antic social behaviour at older ages. These are priceless benefits and will help reduce public spending, eventually. There are also good predictors of which children are most able to benefit from these interventions so they can be targeted. Graham Allen MP produced two excellent reports which explains this in great detail and helped establish the Early Intervention Foundation (EIF) that promotes this kind of intervention.

Whilst the concept is best developed around children there are other applications. Perhaps the most important is around mental health. There is considerable evidence that poor mental health is perhaps the single most debilitating condition afflicting people. Stress, depression, loneliness and other low level conditions become progressive leading to poor social interactions, inability to work effectively, drug abuse and self-harm, domestic violence, child abuse, anti-social behaviour and crime. Almost all medical interventions though are aimed at acute conditions and almost none at prevention despite the clear evidence that the benefits would be immense and the impact on public spending and public well-being considerable.

The second type of intervention is best targeted at the point of crisis and is designed to prevent recurrence of the crisis. For example, many admissions to A&E are caused by people worse for drink and other substances. This is an ideal point to identify people in need of wider help and support them to deal with their underlying condition instead of just patching them up, sending them on their way and doing the same next week and the week after that. Another point of intervention is when children are about to be brought into care or just have been. There is good evidence that unless they are moved out and back into a family situation very quickly they are likely to stay in institutional care for years, reducing their life chances further and greatly increasing public spend on looking after them.

The third type acknowledges that more often than not the presenting issue is probably only a symptom of a wider range of problems facing the person, and if only that is dealt with the person and family will continue to present themselves to a range of public agencies continually. Exercises carried out demonstrate the huge number of different crisis interventions that some people generate, none of which do more than postpone the time until the next intervention is needed. The Troubled Families initiative is predicated on dealing with this type of issue in a different way, by a holistic assessment of need and a package of interventions designed to put people back on a self-sustainable life path.

It would seem obvious that well-structured targeted early intervention and prevention programmes must not only cut the demand and cost of crisis interventions, but also improve life chances of individuals and bring wider social benefits to us all. However, they remain peripheral programmes and have not really made any significant contribution to the financial crisis. There seem to be five main barriers to making these programmes more significant:

- The length of time between the intervention and any measurable impact on public spending.
- The need to invest in new programmes at a time when spend is under pressure and crisis interventions are still needed.
- The need to commit to wholesale system change to capture the benefits demonstrated by small scale pilots.
- The need for different public agencies to design and integrate common systems to have effective multi-agency intervention and the challenges to governance and shared sovereignty that brings.
- A credible calculus for assessing benefits so agencies that can capture the fiscal benefits are prepared to pay for the investment that other agencies may need to make.

Time scale is clearly an issue for some interventions and requires planning at a strategic level across all public agencies. However it has been done based on research from Washington State Institute for Public Policy led by Steve Aos. Washington State invested in programmes of early intervention designed to cut crime and in consequence cut their future planned programme of prison buildings. This way of working is deeply embedded with the State, but it seems to work because these are decisions made across the whole public sector. In the absence of greater control of public spend at local level, or greater cohesion across UK government spending departments, this seems hard to achieve.

Type two and three interventions have much quicker pay back periods and the other barriers come much more into play. Attempts have been made to build models that allow investment spend in prevention at the same time as continuing with crisis spend. These are programmes like the Department for Work and Pensions' (DWP) Work Programme, the Ministry of Justice's (MoJ) Peterborough Prison project or Essex's Social Impact Bond for keeping children out of care. These all rely to a greater or lesser extent on a third party finding the investment up front, to supplement in some cases an upfront 'attachment' fee, to be recouped once the outcome from the investment has been achieved – people into work, reduced recidivism, children back into stable family settings – by payment on results.

These social investment models also face some challenges though, not least the other barriers listed above. There are some matters of precision that also need to be tackled to make them work. Not least challenging is building the 'counter-factual' model – what is the assumption of what would have happened without the intervention in order to measure the effect and calculate the payment. This is critical for the viability of programme as it in effect divides any benefits between the contractor and the sponsor. There is also a tension about whether to do 'black box' procurement or have some assessment of the methods that are being proposed. Without some evidence of the efficacy of the planned interventions it will be hard to assess Value for Money (VFM) from the proposal. Can better service outcomes be translated into predictable cost savings that a Director of Finance could include in a budget? If there are, are they great enough to pay for the investment, the interest due to the time delay, the profit and risk margin that the contractor builds into the bid? Finally, in the haste to meet the financial target have we already simply cut the service from which we hoped to make sufficient savings to pay for the programme when we 'slashed and burnt'?

It is clear that until a market has developed and some investments made and evaluated this idea remains fragile and full of risks. It will therefore take time before the approach has become sufficiently widely accepted to be making any significant contribution to savings. Assuming it does so, the other issues will also need to be addressed. Perhaps the best way to understand that is by looking at the troubled families initiative.

Troubled families works because of the significant funds that Government have put into the scheme. It is a social investment programme as it has a mixture of attachment fee and payment by results. It is focused on interventions with families with multiple difficulties with a view to increase attendance at school, cut anti-social behaviour, reduce domestic violence and substance abuse and prevent crime, all while improving other social benefits like increasing employment, reduced homelessness and better health. It appears to be producing results but still faces some considerable barriers to become truly transformational.

The design of the scheme has necessarily simplified the complexity of issues it is trying to address in order to have a manageable payment mechanism. This may distort the characteristics of people entered into the programme and limit the benefits, but hopefully councils running the scheme will not be overly restrictive in how they run it. The first challenge is to measure the impact of success on elements of public spend. That is going to be hugely difficult as the programme is an add-on to all the other things that councils are doing. Those systems designed to help at the point of crisis will still be full to overflowing even while the programme runs. Without a way of measuring the benefits it will be even harder to do the next steps.

The first of which is to break up all those systems designed only to intervene at point of crisis and set up ones that deal with all the issues facing individuals and families. This will require multi-disciplinary cross public agency assessment and intervention teams. There will need to be a uniform management of the teams with access to resources from several agencies at the same time. This requires those agencies to surrender their control over money, staff, building and other assets to the joint enterprise. It can of course be done – it's just very difficult, it will take time and needs new governance structures that are currently being developed.

I can't leave the idea of prevention as a way of saving money without reference to perhaps the best and most successful example, which is the fire service. The popular perception still of the fire service is that they are employed to put out fires. They have found that it is cheaper not to have any fires in the first place. Firemen and women now spend most of their time and efforts on raising awareness of the risks of fire and with other agencies improving the fire safety of buildings. It has brought success to a truly remarkable degree. It is something for the rest of the public sector to learn from.

\ do less

Finally, when all else fails you really do have to make some cuts in services. The question is whether it can be done in a way that is different from 'slash and burn'. Yes, provided that:

- councils know what their outcome priorities are and how to measure them,
- they understand what each service contributes to those priorities and
- how effectively each service can and does contribute.

The first point is turning what the council thinks its purpose is into something tangible and measurable. One council I knew specified its purpose alongside that of its strategic partners in the rest of the public sector and beyond as 'creating a high quality of life' for its people, specifically by enabling them to 'succeed economically', 'stay safe in clean green neighbourhoods' and 'be healthy'. These high level outcomes were defined more precisely by just eight performance measures such as wage levels, employment rates, life expectancy, perceptions of safety and similar. Other places will have a different set of priorities and indicators. Of course there are many other indicators that are important, but they need to be arranged underneath the limited number of priorities. This then gives a solid framework for evaluation of services.

However, too often councils fall into the trap of having multiple priority indicators linked to many different strategies that are not linked together and coherent. This was a particular issue at the height of government monitored Strategic Partnerships, when every spending department had its own indicators that it wanted the partnership to prioritise. It was considered a triumph when government limited it's compulsory indicators to just 39. When you have 39 priorities in reality you have none, as you have no real way of deciding between the competing priorities. The pressure on politicians to set multiple targets though is immense both at national and local level, because limiting your ambition means having to say some things that electors want are not high priority.

The second difficulty with setting a rational decision matrix is the existence of statutory duties. As indicated above local authorities have over 1500 specific statutory duties, many of which are articulated as processes to be followed as opposed to outcomes to be achieved. Setting out how to do things in legislation builds inefficiency into operations as it reduces flexibility to take advantage of technology, to work with other agencies and to combine services to meet multiple outcomes. Even more importantly, though statutory duties trump locally determined priorities it means that money needs to be spent on things that are not considered the most important. For example, most local authorities have removed social care support with people with moderate needs but still provide subsidised public transport to all older people regardless of need because it's a statutory duty. Throughout the current austerity government has not reviewed the priorities for local government, as set out in statute assuming that everything can still be delivered despite the huge reduction in funding.

The third dilemma is the apparent conflict between 'rational' priorities and 'emotional' ones. In particular, an attraction and support of institution, even though similar or better outcomes can be achieved at less cost by redesigning services. It is the reason that libraries, post offices, hospitals and even police stations galvanise such public and political support even when they are not well used and have become very expensive to maintain. What should matter is that people still get effective access to the services that these institutions provided rather than the building itself. The narrative around the service change is as important as the change itself.

More challenging is the poor evidence that links the outputs of service lines to the outcomes that have been chosen as priorities. To make effective rational choices this needs to be known. If service A and B both impact on outcome C, you need to know what the equations are. By having this knowledge, you can substitute cuts in the less effective service with increases in the more effective one to help maintain service outcomes despite overall reductions in spending.

Finally, of course, it is very resource intensive to carry out a complete assessment of all services within a fully rational framework. It is almost inevitable that some shortcuts are made, such as the creation of short-term policies aimed to appeal to voters. The underpinning of democracy is that elected officials are entrusted by the electorate to make decisions for them collectively. The unelected officials' job is to ensure that in making those decisions elected members have as complete information in front of them as to the consequences of the change as is possible.

Local authorities have made cuts to services, although perhaps much less than might have been anticipated. They have more often than not undertaken assessments against a range of priorities, and while these may not have been perfect they are perhaps as good as can be achieved given our state of understanding.

good accounting practices

How many times and in how many places has the budget almost been achieved at in-depth reviews with members but not quite? At which point the Director of Finance says the equivalent of 'that's close enough' and then pulls the rabbit out of the hat before the final report is presented.

There are things that can be done through the accounts to allow the numbers to add up. While reserves and some balances may be ear-marked for particular uses, their time has not yet come. Assumptions made on how to calculate provisions for bad debts or non-collection can be changed. The basis of recharges to statutory accounts can be reviewed. There is now much greater flexibility about amounts that have to be set aside for management of debt especially around Minimum Revenue Provision. Have you clawed back all the VAT you are entitled to? Are you still paying estimated bills on property where no one knows where the meter is or even where it was sold? Are the assumptions around cash flow and treasury management overly cautious?

Those are just some of the ways that I think treasurers can squeeze a bit more from the balance sheet to help overcome a short term problem. They are all being used and in some cases they will provide considerable "saving". What they almost all have in common is these are devices that create time to solve more fundamental budget issues. The underlying reality won't go away. Time is important though as we have seen in this review. Some of the most powerful ways of making savings that have not yet been tapped depend on complex changes especially to governance that are not easily or quickly put in place. Provided the time generated by these accountancy devices is put to good effect then they are probably a better approach than more slash and burn.

The biggest challenge of all then is convincing all key stakeholders across a range of public agencies that they are standing on a burning platform and it's important to act.

lessons to learn?

So turning to the question at the beginning– how have local authorities made the savings so far? What options are open for the future given that we are probably only half way through cuts? Let's look at the score sheet from the above review:

- Slash and burn – this has made a significant contribution. Although, in my opinion, potential negative consequences haven't been addressed, particularly in reduced capacity to make further change.
- Generate income – has made some contribution in some places, but I think there is room for it to be utilised more. To be more significant it has to be accompanied by some cultural changes in local authorities.
- Efficiency – councils have generated huge savings from increasing efficiency and innovating how they have approached achieving it. But, anecdotal evidence tells me there is probably still much more to come if we look at redundancy that is built into our risk mitigation systems.
- Outsourcing – has generated significant savings and supported many places with wider change management. It is still able to make further contributions, but I think perhaps it needs to change its model to be more flexible to adapt to the financial pressures.
- Public/Public partnerships – there are some good examples, but in my opinion they have not been widely applied. The potential to make significant further savings from greater collaboration is considerable, but the key to releasing that is solving governance issues that allow essentially hierarchical organisations to work effectively horizontally.
- WOCs, mutuals and Trusts – I think there are good examples here and there is also still more potential. Additionally, this may be a good way to help protect staff interests in the wake of considerable downsizing, rather than find very large savings.
- Co-production and related approaches – there is great potential to make efficiencies and save the public sector the need to spend from fully exploiting co-production in a systematic way, but I think it may be difficult to achieve because of a range of barriers.
- Prevention – similarly to co-production, these social investment models look as if they may contribute significant benefits. However, I think the potential to capture these even in the medium term is limited because of the fragile nature of the market and the enormous risks inherent in depending on it as a way of saving. Prevention budgets are amongst the first threatened because they can usually be cut in the short terms without too many adverse consequences.
- Rational cuts – already happening and many more to come. The poor evidence around the effectiveness of current public sector interventions makes it hard to create robust models, in my opinion this means there will always be considerable subjectivity in decision making.

Where would we focus efforts in the future to maximise savings. I think my top three would be: deconstructing redundancy in risk mitigation systems to improve efficiency, new governance systems to create effective public collaborative partnerships and another real go at trying to make co-production work at scale in a systematic way.

The single biggest contributor to making these things happen is probably a sea change in the culture of public sector organisations. We may need them to be more cost conscious, customer focused, with a distributional model of responsibility and the necessary empowerment to make that work, value should also be measured by outcomes rather than the size of the budget, and embracing collaboration across organisation by shared sovereignty and common goals.

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