

Better, Quicker, Cheaper

by **Barry Quirk**

The 2008 economic crash not only shook the global economy; it has also led to public sector retrenchment around the developed world. The British government is embarked on a severe deficit reduction strategy to rein back public spending. In my own council in London, England we serve a population of some 270,000; and we are implementing cutbacks of \$55 million this year, with plans for a further \$90 million over the following three years on a total annual revenue budget of \$440 million.

The council's main areas of spending involve social care for the elderly, child protection, school support services, environmental maintenance, and leisure service; and more managers are finding out that cutbacks at this scale do not come easy. The politics involved in deciding how to save the money is difficult, and the management challenge to implement the savings is equally hard.

During the past year, we have devised a new approach to resident engagement that informs the public of the detailed profile of local spending on public services and involves them in discussions about what we can do to lower costs. Initially, it was felt that the public would prioritise the general good services to everyone, such as environmental maintenance and neighbourhood services. But facilitated discussions involving thousands of residents in local community meetings placed services for vulnerable elderly people and for children at risk as the top priorities.

What's more, the general view of these public discussions was that the council should substantially increase user fees and charges. These community-level discussions have been incredibly useful in helping elected councillors reshape budgets for the future.

While it is one thing, however, to decide where the savings should come from, it is just as difficult to decide how in practical terms the savings can be achieved. What's more, the management challenge is to achieve the savings in ways that sustain service outcomes. The bottom line is that local government managers need to redesign services so that they are better, quicker, and cheaper.

It is possible to reduce costs by incremental changes as stopping, trimming, and delaying expenditures. But these are just tactics; they are not management strategies for achieving economies. For that, local government managers need to examine economies of scale, scope, flow, and penetration. And they need to engage in radical service redesign that involves customers in reshaping the cost base of services.

Here are five practical cost-reduction strategies.

1. ECONOMIES OF SCALE

In local government, it can be difficult to achieve economies of scale as we serve a defined local community. By sharing the cost of services across local governments, however, it may be possible to lower costs in this way. By jointly buying my council's information technology services with a neighbouring council that uses a similar technology platform, for example, both councils have lowered their annual information technology costs by a combined \$4.4 million.

What is feasible in such outsourced services as IT is also feasible in other services. In our highways management and accountancy services, we are integrating with two other councils to lower the costs of these specialties.

In London, three councils are looking at how they can combine most of their direct services while retaining their separate civic and political identities. This "tri-borough" plan involves Westminster, Kensington and Chelsea, and Hammersmith and Fulham.

2. ECONOMIES OF SCOPE

In the private sector, economies of scope arise from using the same capability platform or the same process for producing similar products to the same group of customers. In local government, we provide public services to a given population of residents, including visitors and daytime workers. This means that it is technically feasible to lower costs by providing more services from an existing service platform. In Lewisham, we have combined the use of assets and facilities with other public service providers to benefit from economies of scope.

Three examples show how this can be done. First, in Lewisham we have linked leisure services with health care providers to share facilities and assets so as to optimise their use and lower their overhead costs to each organisation. Second, we use many of our 90 schools as a platform for providing other family centred services and thereby reduce overhead costs. But it is not just links with other public bodies that can produce economies of scope. Linking some library services with a local not-for-profit social enterprise has lowered the cost of library provision and given greater financial security to a valued social enterprise.

3. ECONOMIES OF FLOW

In the private sector, economies of flow arise principally through the application of lean techniques and process improvement, first in the auto production industry and subsequently in the manufacturing and financial services sectors. During the past decade, local councils have adopted these techniques to eliminate waste and duplication in core administrative processes. They have used lean techniques to streamline the administration of permit handling, parking enforcement, and welfare entitlements. Lean approaches have taught councils how to staff services commensurate with changing patterns of demand—whether these patterns are hourly, daily, or more seasonal.

But councils have not used these approaches to manage demand better. This includes the management of what is called "failure demand." This occurs when customers keep returning to the service provider to get mistakes fixed. Sometimes, 20 percent of all costs involve fixing the

mistakes made in the initial service delivery. Getting service right the first time is important in lowering costs, as we learned in Lewisham with the management of welfare benefits where, after applying these techniques, we now can turn around 99 percent of welfare applications within one day.

But improved demand management also involves diverting and deflecting demand so users learn how best to serve themselves. Again in my own council, we have improved the management of the demand for social housing by using designers to work with homeless households and frontline staff to provide service correctly the first time and also to expand people's choices. Where previously they thought that renting a home from the council was the only choice open to them, they now have a wider range of options in the local social and privately rented housing market.

4. ECONOMIES OF PENETRATION

In the private sector, economies of penetration occur when producers or retailers have gained intimate knowledge of their customers' purchasing habits and preferences to cross sell other goods and services to them, exemplified by the Amazon.com reference of "people who bought this book, also bought these other books." This approach lowers the cost of marketing by getting your products straight to those customers most likely to buy them.

In the public sector, this is a relatively underdeveloped approach to lowering cost. Although a considerable amount of customer information is collected by public agencies, few of them have sophisticated customer relationship management (CRM) systems that enable effective cross selling across their service offerings. Of course, there are other examples among public agencies where database systems are used by professionals to share information about their clients' needs.

These include data sharing between police and social care staff about offenders who may be drug users as well as data sharing between schools and child protection staff about families where children may be at risk. But routine use of CRM systems to improve service efficiency in local government is much less developed.

5. SERVICE REDESIGN

If the costs of public services are to be reduced dramatically, they need substantial redesign that reshapes services rather than simply revamps them. Whole system redesign requires changes in service design, changes in work organisation, and changes in organisational form.

Service redesign involves addressing the fundamentals of a service. For each of our services we have to ask certain questions: To what extent does the service have to be delivered, or simply be made available, or, instead, be capable of self-service? And we need to address these fundamentals with the customers themselves. For if we are to reduce the cost of local government by one-third, this will be achievable only if we can get residents to serve themselves.

Not all services can be delivered online, of course, but it is feasible to use social marketing techniques (among other approaches) to change

people's behaviour so that aggregated demand is lowered or the aggregate cost to the public purse is lower. The best example of this in Lewisham is where we developed a cellphone application that enables residents to photograph environmental problems. They send us the photo with an embedded geocode direct from their cellphone. Our environmental maintenance staff fix the problem and then send the resident a new photo of the problem fixed. During a three-year period, this has dramatically altered public reporting and radically lowered the cost of the service.

In summary, local government managers are having to deliver through an era of austerity. Just as elected officials are needing to engage with residents afresh to build broad consent on how budget cuts can best be made, so managers need to consider cost reduction strategies afresh. They need to pursue the four economies—of scale, scope, flow, and penetration—and they need to radically redesign services from the perspective of the customer.

At different stages of their lives, residents are both public service users and taxpayers who finance these services. As taxpayers, residents want cheaper local government services; and as service users, residents want their services to be better and quicker.

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