MANAGEMENT BOARD

ACHIEVING COST REDUCTION

Note by the Director General of Resources and the Head of the Office of the Chief Executive

Purpose

1. This paper explores how the House Service should approach the task of reducing its costs by 9% over three years.

Action for the Board

2. The Board is asked to:
- Agree that a programme should be established with the objective of cutting costs by 9% over three years and that a senior staff member be appointed full-time to direct this;
- Consider whether to set targets for departmental cost reduction;
- Agree that the corporate and departmental business plans for 2010/11 should contain financial data for that year only;
- Consider how to strengthen corporate business and financial planning; and
- Discuss the approach to be taken to engagement with the Trade Unions.

Background

3. In December the Commission agreed to the Management Board's financial plans, which envisage a 9% cut in the cost of the House Administration over three years: a level budget of £258 million in 2010/11 reducing to £235 million by 2012/13. The possibility remains that the Commission in the new Parliament will require more stringent cuts.

4. At its meeting in December, the Board discussed the programme of efficiency reviews. It agreed that [s.40] should begin by scoping the range of possible reviews which he could undertake, and present the options to the Board in March.

5. The December paper by the Director General Resources on efficiency reviews (MB2009.P.114) acknowledged that these reviews were just one element of what would need to be a broader cost reduction programme, and that the best approach might be to manage this body of work as a programme, with a number of projects within it, and the overall aim of delivering 9% savings in 3 years. He undertook to provide a further note to the Board in the New Year.

Elements in the cost reduction programme

Departmental cost reduction

6. Work is already underway within Departments to identify areas for savings and to bring down costs. This will be important both in delivering savings and in engaging staff at all levels in the process of re-examining what we do and looking for more cost-efficient ways of working. This may lead to substantial savings in some Departments, but it is unlikely to achieve a 9% cut overall; and the Board has agreed in the past that it would be undesirable to adopt a "salami-slicing" approach – in other words, we should be considering corporately where savings should be made, rather than reducing departmental budgets pro rata.

7. The Board needs to decide to what extent to be directive about departmental cost reduction. Do you wish to leave it to Director Generals to see what they can do, by whatever means they wish? Or do you wish to set targets for departmental cost reduction? (If so, on what basis?) Do you wish, at least, to make clear that all Departments will be expected to make some efficiency savings? Do you wish to establish a zero-based budgeting approach for budget-setting for 2011/12?

8. Whichever approach is adopted, common standards of measurement are needed; cross-cutting impacts will need to be managed; and we suggest that there should be monitoring and a challenge role to ensure that proposals are robust and implemented. Clear and consistent financial management information will be needed both for decision-taking and monitoring purposes.

9. This links to the immediate issue of what figures we should put in next year's corporate and departmental business plans for years 2 and 3 (2011/12 and 2012/13). We know the total expenditure we are planning for in each year, but we do not yet know where the savings are to be achieved, so giving disaggregated figures is difficult. There are a number of options, none of them ideal:

    a. Cut all figures on a pro rata basis, but explain in the text that this is only indicative. This would focus minds on the reality of cuts, but it is misleading (it is not what we plan to do) and risks making managers in areas we are not likely to cut think that they have to curtail activity, and giving false assurance to managers in areas where cuts may, in fact, need to be greater.

    b. Show disaggregated figures on a level budget basis, while making clear in the text that cuts are planned. This is also misleading, and risks making people think that cuts are not really going to happen, or not to them.

   c. Leave out figures for years 2 and 3 in this year's plans, explaining that work is being undertaken to re-evaluate budgets for 2011/12 and beyond in the light of the new strategic plan. This would be less misleading, but the loss of detail (particularly on future investment profiles for new initiatives) would make the documents less useful as management tools. And it would require quite a change in presentation in the draft Corporate Business Plan from the version shown to the Commission in December, which might excite comment.

On balance, we favour option c. What approach does the Board wish to take?

Efficiency reviews

10. [s.40] took up post in January and is beginning to explore the scope for savings from a corporate perspective. He has been asked to concentrate on areas which will yield significant savings. He will present proposals to the March Board.

11. Departments may wish to hold their own efficiency reviews, as a means to drive departmental savings. It will be important that these are co-ordinated with [s.40]'s work.

Reappraising investment priorities

12. It is unlikely that 9% cuts can be achieved by greater efficiency alone: it will also need us to reappraise our priorities. This is dependent on the strategic review which will be carried out over the next few months, in time to present a new strategy and vision (or possibly alternative visions) to the incoming Commission after the Election (probably late May, but could be earlier). This strategic review will be informed by a number of elements:
    a. Alex Jablonowski's review of Tebbit implementation
    b. Report of the Future Strategy Group
    c. Review of the Balanced Scorecard
    d. A strengthened business and financial planning process.

13. The Board will need to consider how best to carry forward this strategic review, and to what extent it wants it to be DG-led (which will require a significant investment in DG time).

14. The Board will also need to consider how to take forward Alex's recommendations for strengthening corporate business planning. Should the division of responsibility between OCE and DR be re-thought? If OCE is to take a stronger role in business planning, does it need more resource? Is the Board willing to delegate decision-making authority to the Resource Management Group? Is it time to implement the proposal for an Investment Appraisal Board (in effect, a sub-committee of the two Management Boards)?

HR and managing staff reductions

15. A separate strand of work relates to the management of people and the potential reduction of staff numbers. It is anticipated that this will be HRMD-led, but will require close cross-departmental working. This will require dedicated and focussed HR expertise, and central direction.

Trade Union relations

16. Linked to this is how we manage our relations with the Trade Unions, which are not in a good state, though their letter of 13 January suggests they are willing to engage constructively on cost reduction. Until now, relations with the Unions have largely been delegated to the Department of Resources: the Board will need to decide whether the Board itself should invest time and effort in engaging with the Unions. This could provide an opportunity to improve relations if we adopt a constructive approach.

Communications

17. Communications will pay a key part in the success of the programme. It will be essential that staff at all levels are engaged in the process, and that the risks to staff morale are managed effectively. The Band A/SCS1 conferences on 22 January will be a first step in engaging middle and senior managers in the need for cost reduction.

18. It will also be important to ensure that Members are appropriately informed of what is happening, and that potential negative messages from unhappy staff are countered. We will need to ensure that the relevant Member Committees (in both Houses, where necessary) are consulted at the right time. As discussed at the Board's awayday, this will require more active influencing by the Board than has been attempted in the past.

19. If controversial changes are proposed, the media is also likely to take an interest.

Change management

20. While the objective is simply to cut costs, achieving it will require a change of culture and expectations across the House Service. There is an argument for acknowledging this, and applying some change management process to it.

A programme approach

21. It is suggested that the best approach would be manage, and co-ordinate, these separate strands of work as a programme, with the overall aim of delivering 9% savings in 3 years. If this is to be successful, it will need to be properly resourced. The IPSA change programme has demonstrated the value of allocating senior staff to work full-time on a programme of importance to the House administration. It is suggested that a member of the SCS should be redeployed to direct the cost reduction programme full-time. The role of this programme director would not be to make decisions on priorities themselves but to facilitate decision-making and to drive progress towards achieving cost reduction. It is assumed that their post would need to be back-filled, but this cost would form part of the "spend to save" approach.

22. We also need to decide what oversight arrangements are required. Should DGR act as SRO, or does the Board as a whole wish to oversee the programme?

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