

## *What works in a context of financial constraints?*

*An evidence review<sup>1</sup>*

*Friday 2<sup>nd</sup> July, 2010*

<sup>1</sup> An early version of the findings from the current review was presented at **ripfa**'s Directors' Policy Forum in June 2010, Dartington.

Combining efficiency (doing things right) and effectiveness (doing the right things) is a duty for government. Start with effectiveness... get things right. Efficiency will follow.

(Bartlett, 2009)

### *Contents*

Introduction	1
Adult social care and the economic downturn	2
Cutback management: theory and research	4
Program review: Canadian experience (1994-1999)	8
Economic downturn and personalisation	10
Conclusions	12
Bibliography	13

### *Introduction*

The current review covers the available evidence from research and practice of what works for the public sector in times of economic downturn and when facing cutbacks. The main focus here is on the impact that downsizing has on adult social care but since this is a very specific area, a lot of the evidence and conclusions are drawn from the broader area of the public sector.

## 2 Adult social care and the economic downturn

2 Organisational responses to the economic downturn and dealing with challenges of downsizing were among the main priorities formulated at **research in practice for adults'** Link Officers' Annual Meeting in March 2010. This was also the main topic of **ripfa's** Directors' Policy Forum.

3 At a conference recently, one practitioner shared that his organisation has made half of the administrative staff redundant and as a result they were in a 'pickle'; many of the core activities were affected and some had been put on hold. While it is very hard to substantiate this practitioner's claim, a valid question to ask is: is there an evidence informed way in which the unavoidable cuts could be handled by the organisation?

4 This was a qualitative enquiry investigating four 'case study' councils from England: a large county council, a metropolitan council, a unitary council and a London borough. Telephone interviews were carried out with twelve people from each site—council representatives and local providers.

This report comes as a response to a number of requests from **research in practice for adults'** Partner agencies<sup>2</sup>. The partners have expressed their need to support local decision-making, particularly in difficult times of cutbacks and restructuring, with robust evidence of what has been proven to 'work' in these circumstances.

These numerous requests have been in accordance with our anecdotal observations of uncertainties that practitioners and managers across adult social care are dealing with alongside uncertainty surrounding their own jobs and major organisational restructuring<sup>3</sup>.

The current report aims to address the question: what does evidence tell us about the best way to cut, develop and maintain services with limited resources?

### *Adult social care and the economic downturn*

There is no doubt that the last few years have been hard for the adult social care services and that the next few years will be even harder with expected large-scale public sector cuts.

Adult social care needs to tackle the double challenge of 'doing more for less': on the one hand, budgets are reduced and on the other hand there is enough evidence that the recession has led to higher demand of services. According to the Chartered Institute of Public Finance & Accountancy

"The price of protecting major budgets such as the NHS or schools will be a need to deliver deeper cuts in 'unprotected services'. For some services, this may mean cuts of 20% or more in the period 2011-14" (CIPFA, 2009).

Between May and August 2009 Chamberlain and colleagues studied the impact of the economic slowdown on adult social care<sup>4</sup>. The researchers found that while it was early to measure the impact of the slowdown on the number of requests for services there were signs of

- significant increases in reports of *abuse relating to domestic violence and safeguarding adults* including participants with examples where families had sought to financially exploit relatives when experiencing financial pressure themselves

- increases in *people presenting to mental health services* for 'lower level' support; this was often experienced not through social care routes but through primary care and third sector organisations
- due to increased unemployment, *employment trial placements* were proving more difficult to arrange
- *third sector partners* reported a significant rise in people presenting with debt, mental health, employment and housing problems
- fewer people being assessed who were required to make a *financial contribution*—combined with deferred payments and increased outstanding debt for non-residential payments (Chamberlain, Sanderson, Curtis, Newbronner and Glendinning, 2010).

A report published by the Audit Commission in 2009 concluded that the impact of the recession was variable by geographic region<sup>5</sup>.

The authors make clear that at the time of the study the UK was still in the first wave of recession<sup>6</sup> and therefore the findings should be considered in that light. Councils in the West Midlands, Yorkshire and the Humber Regions reported the most substantial effects, while those in the South West and the East felt significantly less affected.

There was a high variation in the rate of job losses explained by the impact of the recession on sectors; the great job losses were in manufacturing, distribution, hospitality and finance; employment in health and education increased in the study period. Unskilled workers have been most affected by the rise of unemployment (Audit Commission, 2009).

Chamberlain and colleagues (2010) found that in relation to social services' recruitment and retention of staff, there is

- a significant increase in applications for *administrative* posts
- an increased interest from *qualified staff* although at least one council had to continue recruiting from abroad
- a greater number of applications for care work *from men* reported by a home care provider
- while retention has generally improved, it was not clear if it was due to the recession only, since staff retention in adult social care had steadily improved since 2001.

It is interesting that according to the latter study, the perspectives on the impact of the recession on the transformation agenda were polarised. While on the one hand some were worried that personalisation could be used as a 'cost-saving vehicle', others were pointing out that it might be a force for more creative thinking in the restructuring of services.

5 The research was based on several methodological elements

- a survey of local authority chief executives
- structured interviews carried out in over half of the local authorities
- in-depth case study visits to eleven local areas
- specially commissioned academic research.

6 Audit Commission's model of the stages of a recession and the subsequent recovery:

- *wave 1 (economic)* a relatively short period where economic output declines; firms fail or reduce staff numbers; unemployment rises quickly; and real incomes fall
- *wave 2 (social)* a longer period in which output growth returns, but job losses continue; unemployment remains high, bringing with it increasing housing, health and domestic problems
- *wave 3 (unequal recovery)* recovery occurs when the economy is expanding and unemployment has passed its peak; investment and economic development return, but not all areas benefit; some continue to decline, while others bounce back.

## 4 Cutback management: theory and research

While it is too early to judge the full impact of the recession on the demand for adult social care services and the range of solutions for these that local authorities will mobilise, the Improvement and Development Agency (I&DeA) and the Local Government Association (LGA) have already published a [range of guidance and good practice case studies](#).

Most of these concern the overall council's responsibilities ([Gloucestershire's portal on recession support services](#), [Ipswich's recession advice leaflet](#), [Sandwell's raising financial awareness](#), IDeA, 2009) but there are also some specific examples of initiatives in adult social care.

One such story is the [Durham case of preventing vulnerable older people of dying of the cold in the winter \(2008/2009\)](#)<sup>9</sup>. This project was informed by the significantly increased 'fuel poverty' as a result of the recession. A County Durham Rights to Warmth Partnership was established and an emergency fund was set that at the time of the reporting had helped twenty households at significant risk from the cold (LGA, 2008).

I&DeA and LGA provide practice examples of councils responding to the increased needs in result of the economic downturn. The Audit Commission (2009) gives its recommendations of what constitutes a good response in these circumstances:

- built from a base of good local knowledge and current intelligence
- part of a sound overall strategy, understood by everybody and delivered in partnership
- guided by clear objectives, with progress monitored
- well targeted, aligned with local priorities and adapted as circumstances change
- creatively resourced
- on the right scale to make a difference.

However, neither of these provides a direct answer of *how* local authorities can tackle the increased demand with further shrinking resources and with the prospect of the future cuts.

### *Cutback management: theory and research*

To look for answers of how adult social services can meet the increased needs with significantly decreased resources, we looked at the considerable amount of public administration research of how the public sector managed to adapt to previous economic downturns.

However, one has to be aware that what applied to previous recessions is not necessarily the case at the present one.

“It is important to note that any comparisons about the impact of previous recessions on social care need to be treated with considerable caution. While the economic circumstances of recession will all be different (and interpreted differently by commentators), the social milieu and health/social care infrastructure and policy context are also radically different” (Chamberlain et al, 2010).

One obvious difference in today’s recession is the context of the transformation agenda, which has been one of the top priorities for adult social care services in the past three years. There are conflicting points of view of what the impact of the slowdown will be on personalisation, we explore this issue in more detail below.

While being aware of the risks of comparing one recession to another, looking at the experience from the 1970s and early 1980s provides a wealth of research evidence of how public organisations tackled significant budget cuts. This is useful evidence to reflect on as it is still too early to expect rigorous research data to have been gathered in the most recent downturn, in a way that allows conclusions to be drawn.

We carried out a search for evidence on ‘public sector’ and ‘downsizing/budget cuts’ and discovered a wealth of publications in peer reviewed journal articles from the late 1970s and early 1980s, roughly coinciding with the previous two recessions. Very few research publications addressed this issue during the following years of economic growth; one can argue that the lessons from the past were well-forgotten.

A lot of the research papers from the late 1970s and early 1980s were acknowledging the rapid cultural transition, at that time, from a ‘do anything at any cost’ era (early welfare state) to a ‘do more for less’ era (McTighe, 1979). A significant amount of the research studies were affiliated to what was shaping up at that time as *cutback management*<sup>7</sup>.

### *The story of NASA’s Mission to Planet Earth*

In 1998 Lambright published a case study exploring the strategies that NASA employed in the early 1990s when faced with the prospect of massive budget cuts of its Mission to Planet Earth programme. The author uses this case study to formulate three main strategies that public organisations utilise with the prospect of spending cuts:

<sup>7</sup> *Cutback management* is defined as “managing organisational change to lower levels of resource consumption and organisational activity” (Levine, as cited in Flynn 1989). It emerged in the late 1970s and early 1980s in the USA and the UK.

## 6 Cutback management: theory and research

- *resistance*: the agency stands up to adversaries, dig in its heels, mobilises the constituency and fights
- *mitigation*: cutbacks are expected and planned for; damage control is exercised through adaptation
- *mixed strategy*: using both resistance and mitigation.

The author makes a particular point about when the mixed strategy actually works

“The mixed strategy is most viable *only after* mitigation has been demonstrated successfully through an adaptation of the agency to the cutback environment” (Lambright, 1998).

Lambright justifies his claim by providing an impressively detailed account of how NASA utilised the above strategies. The Agency initially *resisted* the cutbacks by ‘repackaging’ the programme’s budget, moving costs from one category to another, and by trying to mobilise other agencies and the scientific community. However, the latter had a vested interest based on the long-standing debate of ‘spending money for hardware instead of for science’. Two other resistance tactics used by NASA, relying on legislative allies and employing ‘cost-benefit’ rhetoric failed to produce the desired results. Mission to Planet Earth was downsized in a manner and with choices enforced by the Congress and the president. According to the author, *resistance* is the least successful strategy in a climate of economic downturn.

A new chief of NASA was appointed in 1992 and he used a completely different strategy of *mitigation*; he proceeded with the needed further cuts but his main objective was to *reclaim the decision-making about any further cuts away from the Congress and back to NASA*, which he succeeded to do by asserting himself as a ‘poster boy’ for budget cutting (Lambright, 1998).

The new chief of NASA’s growing authority with the Congress and the president helped him to employ the third, or mixed strategy at a later stage; he successfully *resisted* any further cuts suggested by the politicians in 1995 (Lambright, 1998).

To summarise the main message from Lambright’s detailed case study

In times of economic downturn and political pressure for cutbacks, *resistance* does not work unless it follows *mitigation*; the latter helps to keep at least some control of *how* the cuts are made within the organisation.

## *Cutback Management: messages from research*

What follows is a short list of findings extracted and themed on the basis of a range of public administration research publications from the time of the previous two recessions.

### *1 Downsizing as an opportunity for innovation and improvement rather than a threat*

Because it forces the management to evaluate, prioritise, and get back to basics, a cutback environment presents a tremendous opportunity (perhaps the best opportunity) to change, to find innovative solutions, to streamline processes and to focus on organisational strengths. In the absence of fiscal pressure or some other significant organisational stress, it is extremely difficult to overcome resistance to change. However, if there are not enough resources to do business as usual and maintain a balanced budget (a typical definition of fiscal stress), then change must occur (Thomas, Pierce, and Tomes, 2002a).

Positively reframing downsizing as an *opportunity rather than a threat* in the belief system of the senior management is not a gimmick. Genuine belief in the assertion is required as leaders tend to transmit their beliefs and expectations to the employees (Dweck, 2006).

### *2 Maintaining morale and retaining quality people*

In all research studied this is a *crucial* factor for the success of cutbacks. This is explained with the highly charged emotional turmoil that underlines the organisational culture at times of cutbacks (Cameron, as cited in Thomas, 2002).

Rumours in organisations start early by people following the news reports about the state of the economy and projecting it to their own organisations; the workforce becomes increasingly uncertain about job security.

Highly mobile and skilled workers may begin a search for alternative jobs and there is a potential risk of 'brain drain' with the best and most mobile staff leaving an organisation. Those who remain may get into a defensive, survival mode, keeping their heads down and avoiding risk (Thomas, 2002).

## A Personal Reflection

### *Leadership during difficult budget times*

By John Gray, retired chief of police

- *convey hope* – if chief executives do not believe things will get better in their hearts, their staff will not
- *be in touch* – acknowledge that employees may be anxious about their jobs and their future
- *stay connected to the community* – community and stakeholders still need the agency; maintain communication
- *prevent a siege or bunker mentality* – wise executives know they have more options when they are proactive
- *reward creativity and innovation* – the agency might have less funding but the human creative potential is not restricted
- *look ahead for opportunities* – a famous hockey player said that he skated to where the puck was going to be, not where it was.
- *make time for planning* – cutback is a great time to prepare for the next stage of growth
- *be a buffer* – encourage open communication but do not become a conveyor belt for rumour, speculation and gossip.
- *refocus the mission* – a mission of an agency is what is attainable with the available budget and staffing resources
- *stick to the basics* – distinguish between 'have-to' and 'want-to' programmes
- *combine and reduce* – a wise leader knows the difference between 'smaller is better' and 'economy of scale'
- *do not punish the public* and the elected members who cut the budget
- *do not do it alone* (Gray, 2009).

## 8 Cutback management: theory and research

### A Personal Reflection

Frank Fairbanks—the city manager of Phoenix, US—shares his advice built on the experience in how the city of Phoenix managed to keep *public employees optimistic and productive at times of budget cuts*

- *value ongoing relationships* – positive, ongoing relationships with employees are crucial as you head toward cutbacks
- *communicate, communicate, communicate* – early, frequent, and complete information sharing builds trust and combats rumours
- *declare a hiring freeze early* – although hiring freezes put pressure on employees, they communicate that the financial situation is serious and action is being taken; some of the vacancies may be cut in budget-balancing, but some can be used to place employees whose current positions are cut
- *prepare an appropriate transfer/severance/retirement programme early* – officially approve a package that makes sense before any specific positions are even identified to be cut
- *cut promptly*<sup>8</sup> – the sooner a cut is made, the fewer the cuts needed, because the savings can be achieved over a longer period; indecision costs community services and employee jobs
- *truly involve departments in preparing cuts* – departments that are actively involved in preparing budget cuts will be more committed to making the cuts work
- *make counselling services available to employees* – the cut process is incredibly stressful both on those who leave and those who stay
- *work hard to place employees* – we work with each employee who loses his or her job to help them find a different city job; hiring freezes create vacancies but we only place employees in positions they can handle
- *encourage departments to welcome placed employees* – encourage all employees to help each other by welcoming transferred employees and helping them to be successful (Fairbanks, 2008).

Curtis (1989) comments that increased centralisation is typical for cutback crises, including the creation of 'emergency' administrative structures; the uses of power along the hierarchical lines increases and the potential lack of communication leads to flourishing of rumours. He states that increased centralisation typically detracts from trust and lowers morale.

For retaining quality employees, Holzer and colleagues, who studied the successes of Australian Public Service reform, suggested establishing *exemption criteria* before reduction (Holzer, Lee and Newman, 2003).

### 3 Re-examining the organisation's mission and the marginal investments

According to McTighe one of the guiding considerations when scaling down an organisation should be re-examining this organisation's primary purpose or mission. Often at times of economic growth public organisations expand to meet needs and demands that are different and/or beyond of what they were originally constituted for.

McTighe suggest that managers ask the following questions

- What are the organisational "musts" or mandates?
- What are the present organisational non-mandated functions?
- What are the activities the organisation does well?
- What are the activities the organisation does poorly?
- What have been the recent trends that are relevant to the organisation's mission?
- What are the time-honoured functions of the organisation that have not undergone close scrutiny in recent years? (McTighe, 1979)

These questions sound very close to an element of an approach that was proven to work in Canada in the early 1990s, where the public sector went through major downsizing in order to achieve a significant decrease in the budget deficit within three years.

<sup>8</sup> While incremental changes have proven to work for *reforming* services, the majority of authors suggest prompt action when cuts are needed.

## Program review: Canadian experience (1994-1999)

In 1992 Canada's debt reached 70% of the GDP and the deficit was 9.1%. This marked a peak of several years of worsening macroeconomic indicators. Three years later, Canada had managed to reverse all this and as Bartlett writes, "...there were no strikes, no tax rises and no ministerial fallouts. All this, despite a cut in spending of 10 per cent and firing 23 per cent of public sector work force" (Bartlett, 2009). How did Canada manage to achieve this?

The approach used by the Canadian government was called *Program Review*.

"Program Review rejected the concept of *across the board cuts* and the view that a *sizable deficit could be eliminated through increased productivity*. Instead, it posited that no alternative existed other than *to evaluate the relative importance of government programmes and services* within the overall fiscal framework. Once these choices were made, the GoC could consider the relative efficiency of various policy options. As it was role focussed, it was *not* based on performance indicators or performance results, which are best suited to reallocations and not to reducing a sizable deficit.

Seen in this light, the exercise was less about 'what to cut' and more about 'what to preserve'<sup>9</sup> to give Canada the comparative advantages needed to prosper in the future, less of a fiscal exercise and more of 'un projet de société' undertaken under severe fiscal constraints" (Bourgon, 2009).

One of the most important characteristics of the Program Review process was the reliance on ministers and deputy ministers, equivalent to the UK's Permanent Secretaries, as the architects of departmental reforms. Departments had to submit their proposals about all programmes (services), which were reviewed by

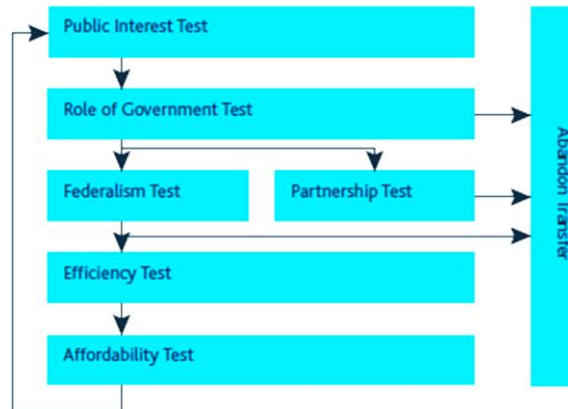
- a *steering committee of deputy ministers*, operating as a peer review committee
- a *special cabinet committee of ministers* to vet the proposals and build political consensus
- *full cabinet* to arbitrate major issues and ensure overall balance and cabinet solidarity (Bourgon, 2009).

<sup>9</sup> It is worth stressing that this was an approach very different from the two common approaches known from before:

- across the board 'salami slicing' cuts
- seeking increased

## 10 Economic downturn and personalisation

Here is the decision tree used to review and approve the programmes



(Bourgon, 2009)

*Program Review* led to unprecedented reduction in public spending by 10% between 1994/1995 and 1996/1997. As part of the GDP, programme spending fell from 16.8% to 12.1%—the lowest level since 1949/1950. What is more, this happened in a context of *increase* in some programme spending, for example for aboriginal peoples and children.

The Canadian approach of Program Review was used on federal government level but shows a *distinct third way in downsizing*—in contrast to (1) *cuts across the board* and (2) *seeking increased productivity*—that has a potential value at local level.

### *Economic downturn and personalisation*

There is no doubt that each recession is unique in many ways and especially in terms of the economic factors that have led to it. Therefore, one has to be careful when applying solutions from previous recessions to the current one.

In the domain of adult social care, one unique characteristic is that for the last three years services have been through a process of significant restructuring, as a result of the Putting People First transformation agenda. How does this major reorganisation process interface with the current pressure for budget cuts?

As discussed earlier, Chamberlain and colleagues' research (2010) revealed that managers had quite polarised views of what the impact of the economic slowdown on personalisation would be. This to a great extent mirrors various opinions expressed recently in *Community Care*<sup>10</sup> and also **research in practice for adults'** anecdotal experience of concerns shared by practitioners attending our events.

While claims that personalisation could be used politically as a pretext of budget cuts should be taken seriously, there are some who look at the current coincidence of the transformation agenda and the recession in a positive way. As research above has shown, times of cutback could be a potential opportunity to re-think the way a service operates and sometimes 'forces' an organisation to innovate<sup>11</sup>—something that an organisation might have little incentive to do in an era of economic expansion.

Bartlett (2009) provides a wide range of anecdotal stories of how moving people to personal budgets leads to significant savings; whereas no doubt further extensive research is needed to prove his point, he claims that "Real savings will come from giving people more control over their services, helping them avoid dependency on the state, and giving them what they want through greater collaborative working" (Bartlett, 2009).

Bartlett suggests three things that services could do to increase effectiveness (doing the right things) claiming that this will also lead to efficiency (increased productivity):

- personalisation
- prevention<sup>12</sup>
- collaboration.

While Bartlett's argument is more political than research-based, his claims resonate in some of the messages from the *Use of Resources in Adult Social Care* report published by the Department of Health (Bolton, 2009). The latter provides a range of case examples from local authorities where self directed support has led to improved efficiency and better relocation of resources (not necessarily decreased spending). For example, see the [Oldham Metropolitan Borough Council case study](#) (Bolton, 2009, p. 10).

Bolton does stress however that personalisation needs to be implemented as part of a holistic approach, alongside re-ablement, early intervention and personal services market facilitation.

10 For example, see Jeremy Dunning's article [Personalisation: Cuts threaten transformation agenda](#)

11 Innovation has been referred to in the current text and together with downsizing is one of the big topics in the current public administration debate. Important on its own right, exploring innovation is beyond the scope of this report.

12 Although prevention is a highly relevant topic to social service efficiency, due to its vast scope and complexity, it is not explored in the current text, which focuses on downsizing.

### *Conclusions*

1. We are still in the first (economic) wave of the recession. As a result of the slowdown, local authorities have to meet increased needs of the population with decreased resources and budgets. The only way to achieve that is if they *do the things differently*.
2. *Resistance* is the least successful strategy that a public organisation can employ in a period of cutbacks unless resistance is used in combination with *mitigation* and pre-emptive measures to downsize.
3. Downsizing is a unique opportunity for a public organisation to *innovate and change*; in times of economic expansion there might be less incentive to do so.
4. *Human relations* are of crucial importance for the success of the cutback. Providing plenty of timely information, involving employees, cutting promptly, relocating staff are proven to work.
5. Re-examining the *mission* of the service and the marginal investments is an essential step of a successful downsizing strategy.
6. There are three approaches to budget savings: *cutting across the board, seeking increased productivity*<sup>13</sup> and the *programme review* model. These are not mutually exclusive but rather a set of different tools to be used as fit dependent on local approaches.
7. Widely diverse points of view exist in how *personalisation* will work in times of budget cuts. There are anecdotal evidence and case studies put forward about the efficiency of self- directed support. However, this is still an area that is very much politically laden and there is a lack of hard evidence that personalisation costs less.

13 See the [Gershon Report \(2004\)](#)

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