NAO
National Audit Office

A framework for managing staff costs in a period of spending reduction

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A framework for managing staff costs in a period of spending reduction

This paper sets out a framework for effective management of staff costs in a challenging environment of cost reduction in public services.

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Introduction

The National Audit Office exists to provide independent opinion and evidence to assist Parliament in holding the Government to account for the way it uses public money. We can only do this effectively if we retain our ability to comment objectively and independently on what government does, and we cannot therefore act as an adviser on specific decisions the Government takes. We can, however, point out what we understand to be principles of good practice in particular areas. This document therefore sets out some of the elements of good practice that the NAO would look for in assessing any programme to manage people costs. However, we recognise that the appropriate course of action must respond to the particular and specific circumstances in each case.

Our value for money work assesses whether departments are making optimal use of resources to achieve their stated aims. People are a key resource in the delivery of public services, and comprise a significant proportion of the cost base. This paper is part of a broader programme of work exploring how the public sector meets its capability needs. The programme includes a forthcoming value for money study on managing staff costs, using this framework to evaluate the quality of data, information and capability in central government's management of ongoing staff costs and staff cost reduction programmes, as well as a review of central government's use of consultants and interim staff.

One challenge for government is to adopt a more structured approach to cost savings, and our recently published short guide to structured cost reduction highlights key issues for public bodies to consider in facing this challenge. This framework builds on those high level principles to set out what we expect organisations to consider in the effective management of staff costs. It draws on our expertise in examining the quality and use of management information across central government, and in challenging the robustness of evidence to inform decision-making.

Scope

1   This paper sets out a framework for effective management of staff costs in a challenging environment of cost reduction in public services. It builds on the high level principles set out in the NAO's short guide to structured cost reduction.[1]

2   Organisations will face these issues in the context of wider organisational change programmes, some of which will be under way already, and some of which will be driven by the requirements of deficit reduction over the coming years. The framework also contains expectations for good practice cost management outside of such programmes, which will help embed improved staff cost management within business as usual.

3   The delivery of public services and achievement of policy objectives is dependent on a range of inputs including buildings, technology and people. Organisational change programmes will need to consider the full range of costs associated with these resources and the relationships between them. This paper focuses on the effective management of staff costs as one of the key enablers for organisations to achieve this wider organisational transformation and sustainable cost reduction.

4   The framework is intended for decision-makers at all levels in central government and those in governance and oversight roles including Boards. The principles will also be relevant to decision-makers in the wider public sector.

5   We will use the principles contained in the framework in our forthcoming value for money study on the management of staff costs in central government, due for publication in early 2011. We will examine the information and systems organisations have in place to understand their staff costs, to appraise staff cost reduction options and to successfully manage the delivery of staff cost reductions whilst protecting expected levels of service to the public. We will report to Parliament on how well central government is equipped to manage staff costs and to deliver sustainable staff cost reduction at this early stage in the deficit reduction programme.

1   *A Short Guide to Structured Cost Reduction*, National Audit Office 2010.

The cost reduction context

6   In May the government announced a £6.2 billion reduction in spending across departments in 2010-11 by cutting waste and low value programmes,[2] and committed to further reductions through a Spending Review to report in the autumn. In its framework document for the 2010 Spending Review, the Government sets out its expectations for:
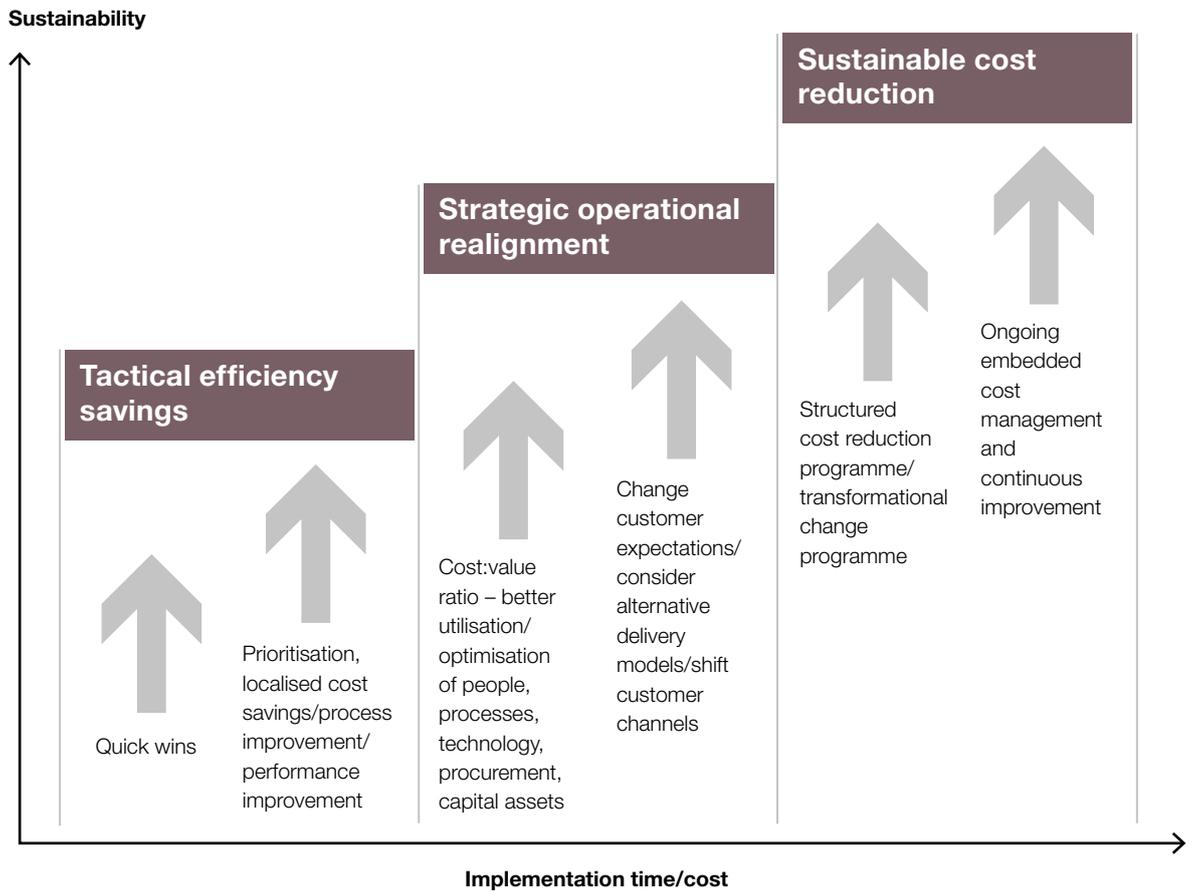
- a step change in the drive for efficiency and value for money in the public sector, including by driving down the cost of operational delivery and simply cutting out waste and lower priorities; and

- a challenge to departments, local government and delivery partners to consider fundamental changes to the way they provide vital services, including promoting greater responsibility by shifting power, funding and accountability into the hands of individuals and frontline professionals.[3]

7   In their planning assumptions, departments have been asked to produce plans of what budget reductions of up to 40 per cent would entail. We expect departments to need to explore the more radical strategic and sustainable cost reduction options outlined in **Figure 1** in order to deliver savings on this scale. As Figure 1 highlights, however, delivering cost reduction of this nature usually demands higher implementation costs and longer timescales. This increases risk and therefore requires a clear strategy from the outset, as well as strong project management and control if expected savings are to be delivered.

2   HM Treasury, *Government Announces £6.2 billion of savings in 2010-11*, May 2010.
3   HM Treasury, *The Spending Review Framework*, June 2010, p.7.

Figure 1
Stages of cost reduction

Sustainability

Tactical efficiency savings

Quick wins

Prioritisation, localised cost savings/process improvement/ performance improvement

Strategic operational realignment

Cost:value ratio – better utilisation/ optimisation of people, processes, technology, procurement, capital assets

Change customer expectations/ consider alternative delivery models/shift customer channels

Sustainable cost reduction

Structured cost reduction programme/ transformational change programme

Ongoing embedded cost management and continuous improvement
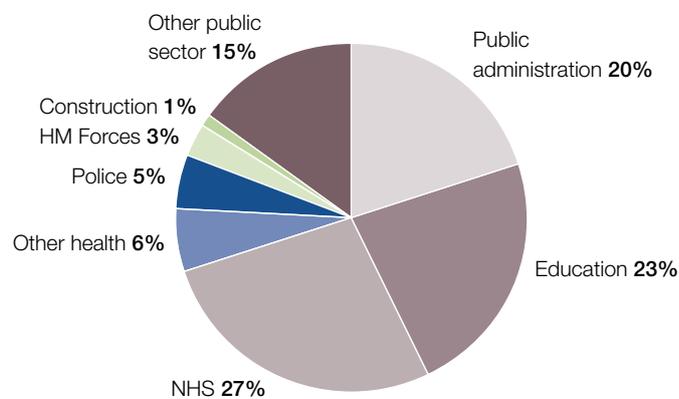
Implementation time/cost

Source: National Audit Office

Staff cost reduction

8   The public sector as a whole employs around six million staff across different areas of the public sector, as shown in **Figure 2**. This includes 529,000 civil servants in central government departments and their agencies.[4] It is estimated that 132,000 staff work in non-departmental public bodies.[5]

Figure 2
Distribution of public sector workforce by industry

NOTES

1   The figure is based on Office of National Statistics Public Sector Employment Statistics at March 2010, representing a total public sector headcount of 6,087,000 staff.

2   Public Administration includes central and local government administration, social security administration, justice, fire and other services.

3   Other public sector includes other bodies such as Royal Mail, housing associations, transport and leisure bodies. Headcount of those working in financial institutions classified as the public sector also appear here.

Source: Office of National Statistics, Public Sector Employment statistics
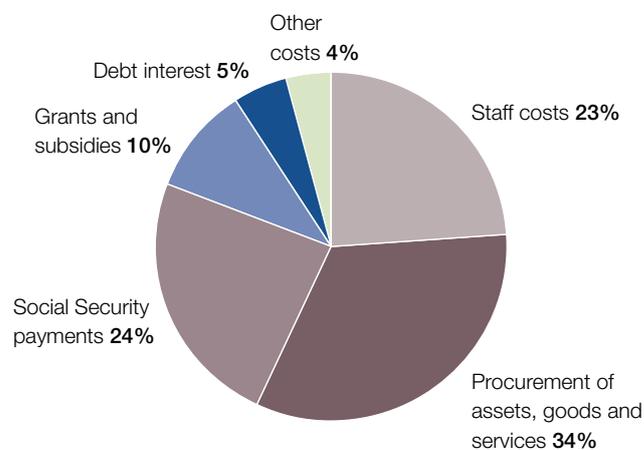
4   Office of National Statistics, Statistical Bulletin, Public Sector Employment Q1 2010, June 2010.
5   National Audit Office analysis of Cabinet Office, Management Information Scoping Exercise, June 2010.

9   The annual cost of public sector pay, national insurance and pension contributions combined was £160 billion in 2008-09, representing 23 per cent of overall public spending in that year (**Figure 3**).[6] Based on a recent Cabinet Office scoping exercise, the cost of the civil service paybill in 2009-10 was estimated in the region of £16 billion, with a further £5 billion spent on staffing in non-departmental public bodies.[7]

Figure 3
Main categories of public spending

NOTES

1   The figure is based on gross government expenditure of £686 billion. Net total managed expenditure in 2008-09 was £630 billion including income of £56 billion.

2   Staff costs include pay, pensions and national insurance contributions.

3   Procurement of assets, goods and services includes buildings, IT, consultancy and other purchasing across government including the NHS and Defence.

4   Grants and subsidies include all non-social security transfers including grants to education, enterprise and housing organisations.
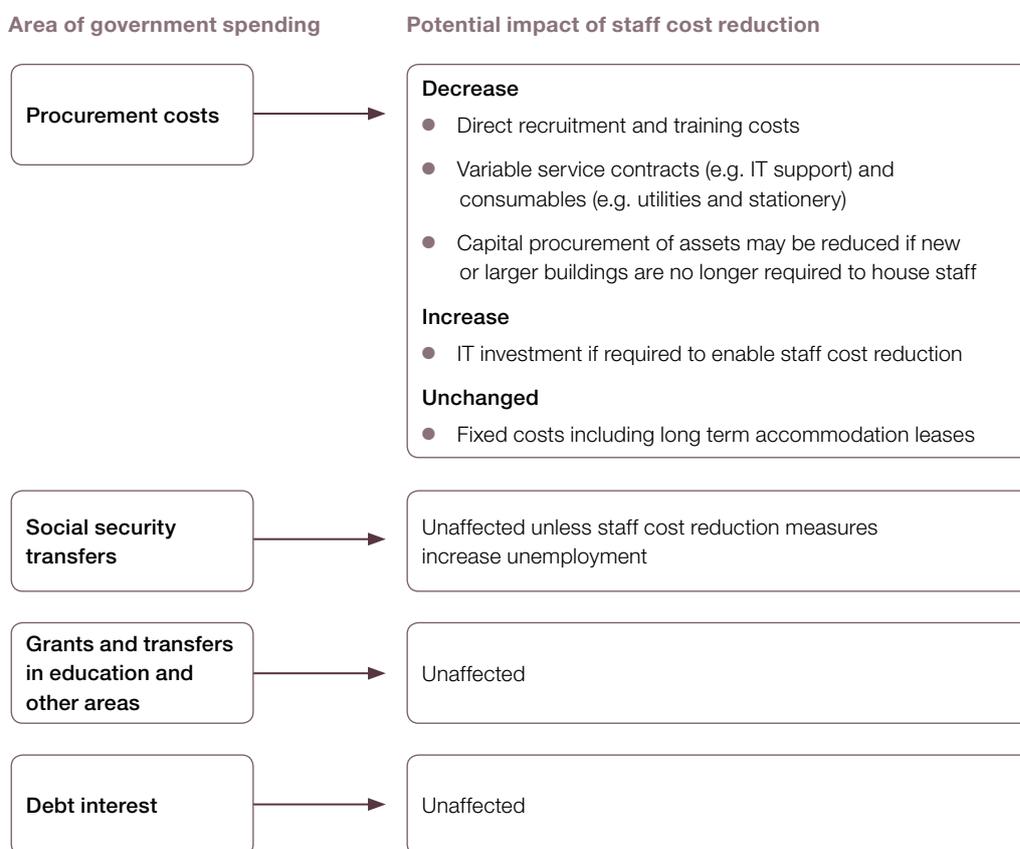
Source: HM Treasury Public Expenditure Statistical Analyses 2010, comprising data as at March 2009.

6   HM Treasury Public Expenditure Statistical Analyses 2010.
7   National Audit Office analysis of Cabinet Office, Management Information Scoping Exercise, June 2010.

10 Staff costs are directly or indirectly related to other categories of government expenditure shown in Figure 3. As a result, staff cost reduction can offer scope for savings in other related cost categories such as accommodation. However, in some instances other cost categories such as IT may increase in the first instance, for example if technology and greater automation reduces the need for staff to process items manually. The potential interactions between these cost categories are shown in **Figure 4**.

Figure 4

Relationship between staff cost reduction and other areas of government spending

Area of government spending | **Potential impact of staff cost reduction**

Procurement costs →

Decrease
- Direct recruitment and training costs
- Variable service contracts (e.g. IT support) and consumables (e.g. utilities and stationery)
- Capital procurement of assets may be reduced if new or larger buildings are no longer required to house staff

Increase
- IT investment if required to enable staff cost reduction

Unchanged
- Fixed costs including long term accommodation leases

Social security transfers →
Unaffected unless staff cost reduction measures increase unemployment

Grants and transfers in education and other areas →
Unaffected

Debt interest →
Unaffected

Source: National Audit Office

11 The overall scale of these figures means that staff costs represent a significant area for cost reduction activity. Some steps to reduce staff costs have already been taken, including the announcement in May of a civil service recruitment freeze expected to save at least £120 million in this year,[8] in addition to an expected £15 million saving from pay freezes and bonus cuts for approximately 5,000 senior civil servants and NHS managers.[9]

8 HM Treasury Press Release, Government announces £6.2 billion of savings in 2010-11, 24 May 2010.
9 Cabinet Office Press Release, Prime Minister announces cuts to Senior Civil Service and NHS manager bonuses, 16 May 2010.

12 As more strategic approaches to cost reduction are considered during the Spending Review, more fundamental staff cost reductions are expected. The Office for Budget Responsibility is predicting that public sector employment will fall by 610,000 by 2015-16.[10] Staff cost reduction activity of this nature and scale carries specific risks, as set out in **Figure 5** below.

Figure 5
Challenges in conducting staff cost reduction activity

Part 1 – Identifying and appraising

- Lack of data and joined-up IT systems may make it difficult to understand the full costs of activities

- Lack of data may make it difficult to analyse comparative performance both internally and externally

- Unclear linkage between overall strategies, business planning, financial planning and workforce planning may mean that cost reduction opportunities are not identified or implemented effectively

- Lack of strategic direction may make it hard to establish where real value is created

- Functions and divisions working in silos which can lead to sub-optimal results across the organisation.

Parts 2 & 3 – Planning and delivering

- Savings may not be delivered in the areas intended:

  - Organisations cannot control take-up of redundancy, creating a risk of loss of key staff or under-staffing in key areas

  - Voluntary redundancy may be less attractive in the context of an economic downturn

  - Savings may take place in areas where they are easiest to deliver in the short term rather than areas where savings are most sustainable

- The uncertainty of staff cost reduction activity and changes to terms and conditions can have consequences for staff workload, motivation and morale

- A reduction in staff can risk disruption to service delivery, with consequences for service users.

- Up-front costs of delivering savings can be high:

  - The NAO's report *Reorganising central government* identified costs of £780 million as a result of the 51 machinery of government changes surveyed. Of this total, 41 per cent related to staff costs, including redundancy costs and raising some salaries as part of pay harmonisation

  - Some cost reduction methods such as redundancy can have lengthy payback periods before financial savings are delivered

- Major change programmes of any kind carry complex risks to delivering intended benefits

- The realisation of long term benefits is at risk to short term events and changes to organisational priorities

- Major change programmes require a change in culture and behaviour, which is often the most difficult element to implement, especially when morale and motivation have been affected.

Part 4 – Embedding

- Cost savings delivered can be undermined by cost growth in other areas of the organisation

- Staff costs can increase if ongoing discipline is not in place:

  - Through staff delivering work that could be delivered more cost-effectively by more junior staff

  - Through promotions through pay scales even when pay rates are frozen

- Unsustainable staff cost growth in periods of economic recovery may require further cost reduction programmes in subsequent downturns.

Source: National Audit Office

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10 Office of Budget Responsibility, Employment Forecast, June 2010.

A framework for managing staff cost reduction

13 Our framework sets out the NAO's expectations for how organisations should approach the delivery of these savings in a way that minimises risk and maximises benefit to the taxpayer. The framework also includes our expectations for effective ongoing management of staff costs. The framework (**Figure 6**) is split into four parts:

Part One – Identifying and appraising options for staff cost reduction

Part Two – Planning staff cost reduction

Part Three – Delivering staff cost reduction

Part Four – Embedding a business as usual approach to staff cost management

14 Parts One to Three cover our expectations for good practice in the context of specific cost reduction programmes. These will range from small scale staff cost reduction programmes based around efficiencies within existing activities to much broader change programmes including organisational restructuring and use of technology. Our framework signposts approaches for identifying cost savings that organisations might use across this spectrum of activity, but it does not provide guidance on how to implement them.

15 Part Four of the framework provides expectations for ongoing activity around staff cost management. While the focus of these principles will be on improving the capability of the business to improve staff cost management as part of business as usual, such activity will also have a role in supporting the successful delivery of specific programmes. Strong management information underpins each part of the framework, in particular:

● high quality information that supports ongoing staff cost management; and

● high quality analytical information that supports specific decision-making.

16 We recognise that constraints and barriers exist that may make it difficult or even prevent central government organisations from applying these principles in some instances. These include the tensions between shorter term pressures to deliver savings in the current financial year, and the longer term investments in organisational change and IT systems required to provide the platform for fundamental service reform. However, ongoing staff cost management, including having robust systems, information and controls in place, will ensure that organisations are better placed to respond to such challenges.

Figure 6
A framework for managing staff costs in a period of spending reduction

1 Identifying and appraising options for staff cost reduction

- Using information to establish a clear understanding of staff costs
- Using information to identify staff cost reduction opportunities:
  - across existing business model
  - through changes to business model
- Using information to appraise options for staff cost reduction

2 Planning staff cost reduction

- Mapping future needs and current capability
- Building capability to address gaps
- Understanding the full costs and wider impacts of reducing capability
- Assessing the overall value for money of the cost reduction programme

3 Delivering staff cost reduction

- Setting strong direction for the change programme
- Implementing the change programme
- Learning from the change programme

4 Embedding a business as usual approach to staff cost management

- Using information to provide ongoing challenge to staff costs
- Expanding the ownership of staff cost management

Source: National Audit Office

Part One

Identifying and appraising options for staff cost reduction

Introduction

1.1 Organisations looking to identify opportunities for cost reduction should begin with a clear understanding of organisational priorities and objectives. This should be considered alongside a clear understanding of the key drivers affecting demand for services such as:

- political and statutory constraints;

- different economic and budgetary scenarios; and

- the levers the organisation has for influencing and controlling demand across the range of its activities.

1.2 Once direction is set, organisations can assess their current staff cost base, and the costs of conducting their business processes. Good information on the costs and benefits of existing activity will support decision-making around the opportunities that exist for cost reduction. Information used in decision-making should be quality assured and validated for reasonableness and accuracy using internal or external sources.

Using information to establish a clear understanding of staff costs

1.3 High quality management information will allow organisations to understand the composition of their staff costs, and how staff costs are distributed across the organisation. We would expect organisations to have standing information which supports frequent reporting on the full cost of the workforce including:

- Direct payroll costs: gross pay and bonuses

- Indirect payroll costs: employer pension and national insurance contributions

- Direct non-payroll costs: seat charge (facilities and IT), training, travel, expenses, mobile phones

- Benefits: gym subsidies, healthcare insurance, childcare vouchers

- Costs of additional capability including consultants, interim and temporary staff

- The ability to segment workforce and costs across a range of criteria including:

    - Organisational structure

    - Geographical location

    - Ranks and grades

    - Professions and skills

    - Functions and roles

1.4   To establish the full costs of delivering services and outputs, organisations should be able to measure the use of staff time alongside other inputs. We expect organisations to be able to allocate staff time, and therefore cost, to outputs, though the quality of management information systems will dictate how easily and routinely analysis of this nature can be undertaken. To establish unit costs for key business processes and activities, organisations should:

- Identify key business processes and recognise that these will cut across functional areas as an end-to-end process.

- Leverage existing management systems to enable the accurate capture of true resource and time allocation.

- Make use of costing methods such as unit costing, process costing or activity based costing.

1.5   Historic information should allow analysis of trends across the workforce in areas such as:

- Attrition including leavers and retirement

- Recruitment and training and costs

- Promotion rates

Using information to identify staff cost reduction opportunities

Tactical Efficiency Savings – optimising the existing business model

1.6 An understanding of the relationship of staff costs to outputs allows for a range of techniques to be deployed that can help identify savings within existing business models. We would expect to see organisations using a range of these techniques periodically as well as in response to specific demands for cost reduction programmes. These techniques include:

- Benchmarking the costs of key activities both internally across similar functions or externally with comparable organisations to identify areas of potential cost reduction.

- Using benchmarking to identify opportunities to improve performance and/or increase productivity.

- Business process improvement techniques such as Lean, which identify inefficient use of resources including staff time and effort.

- Segmentation of activities to allow greater standardisation, simplification and automation of frequently recurring processes, reducing the need for staff time, skill and effort on routine activity.

- Using risk management to focus resources on high risk and priority areas.

- Assessing the scope of technology to improve the utilisation of staff time through more flexible and mobile working.

- Reviewing the nature of staff roles across the organisation, identifying scope for devolving more responsibility to frontline staff and reducing the layers of management within an organisation.

Strategic and sustainable cost reduction – changing the business model

1.7 Larger or more radical structural changes will offer opportunities to realise more significant and sustainable reduction of staff costs. In addition to understanding the costs of activities, fundamental reform demands an understanding of the comparative values of an organisation's activities. Optimising the ratio of cost to value also requires an understanding of the statutory constraints that may affect the nature of service delivery, and analysis of the relative priorities of the organisation's activities. We would expect to see organisations exploring opportunities for optimising the cost:value ratio of spending and identifying cost reduction through options such as:

- Using levers to reduce customer demand for services, such as narrowing eligibility criteria, means testing and charging.

- Using technology to change customer interaction with the organisation to those with a reduced cost e.g. moving face-to-face contact to call centre or online contact.

- Organisational restructuring through changing the delivery model of services including:

  - Devolving service delivery to an arm's length organisation or local delivery partner.

  - Commissioning services from private sector or third sector organisations including employee-owned organisations.

  - Cessation of activity and reduction of role to regulation of private sector markets and influencing behaviour.

Using information to appraise options for cost reduction

1.8 Optimising the relationship between the costs of delivering the service and the value provided by that service requires an understanding of all the levers the organisation can use to influence costs, and how they interact with each other. This requires a system-wide view of the organisation and we expect organisations to be able to model the effects of these relationships to determine the full costs and benefits of any proposed cost reduction decision. We expect departments to demonstrate an understanding of:

- The impact of cost reduction options on the customer experience and the wider impact this may have on the organisation, e.g. increased demands on staffing created by customer service failure.

- The impact of cost reduction in one area of the business on demands and costs in other areas of the business.

- The impact on staff and customers of reduced spending in other categories (e.g. IT costs, premises) in order to avoid reducing staff costs.

- The impact of pay policy on staff attrition and related recruitment costs.

1.9 Decision-making should also take into account a wider system view of costs across the whole of government. We would expect organisations to demonstrate an understanding of:

- The wider costs of service cuts that will impact on demands and costs for other departments' services.

- The likely regional and local impacts of any cost reduction programme.

- Opportunities for collaboration.

- Opportunities for standardisation and improvement of processes which cut across organisations.

- Opportunities for more effective staff utilisation – redeployment, flexible resourcing for peak periods.

Part Two

Planning staff cost reduction

Introduction

2.1 Alongside decisions on options for reform, whether changes of business model or improvements to the existing model, organisations need to develop plans for delivering the right workforce for the new way of working. While this may involve some building of capability, approaches to reducing capacity and capability will be equally important if savings are to be delivered cost-effectively.

Mapping future needs and current capability

2.2 We would expect organisations to use standing management information as well as evidence from the appraisal of cost reduction opportunities to identify future workforce requirements. This involves forecasting of future demand scenarios as well as determining the optimum workforce model required. We expect organisations to identify:

- Existing skills and capabilities that are crucial to the delivery of high priority and high value activities, and where they are located within the organisation.

- Skills and capabilities that are under-represented in the proposed organisational structure and need to be built.

- Skills and capabilities that are over-represented in the proposed organisational structure and offer the opportunity for staff cost savings.

Building capability to address gaps

2.3 An organisation has a range of options available to build capability where required. We would expect organisations to use management information to understand and appraise the full costs of these options, including:

- The costs of meeting demand through increasing the skills of existing internal staff through training and development.

- The costs of meeting demand through recruiting new staff with required skills (through open recruitment or civil service redeployment) or outsourcing capability to a contractor.

- The costs of meeting demand through temporary redeployment of internal staff with required skills.

- The costs of meeting demand through temporary use of interims, contractors or secondees from the civil service or the private sector. Where temporary use of contractors is decided on, we would expect organisations to have applied good practice principles from the NAO Consultancy Assessment Toolkit as outlined in **Figure 7**.

Figure 7
National Audit Office Good Practice on engaging consultants

- Good practice in assessing need:
    - The department has a strategy for using consultants linked to its recruitment and training strategy
    - There is sufficient management information to support decisions on consultants
    - Detailed business cases and specifications are required for consultancy contracts
- Good practice in considering resource options:
    - An efficient mechanism is in place to identify internal staff skills and capacity before buying consultancy services
    - Each member of the consulting team is considered essential, with skills that are not available internally
    - Key roles on major programmes are filled by departmental staff
- Good practice in awarding and contracting:
    - Where there is need for a consultant the requirement is put out to tender
    - Consultants are contracted for very defined, short to medium term durations.

Source: National Audit Office, Consultancy Assessment Toolkit

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Understanding the full costs and wider impacts of reducing staff

2.4 Where the future staff requirement offers opportunities for staff cost reduction, we expect to see decision-making based on informed options appraisal. The full costs of implementing reduction should be set against the expected savings, and the timetable for realisation of those savings should be understood. Full costs should include the impact of service disruption due to change processes. We would expect investment appraisal techniques such as payback period or net present value to be used.

2.5 **Figure 8** shows the information we expect organisations to use when assessing the viability and cost-effectiveness of different staff reduction options.

Figure 8
Information for assessing staff cost reduction options

Cost reduction method	Expected information on target roles
Redundancy (voluntary or compulsory)	● Contract terms of staff including compensation terms ● Average length of service of staff ● Average pay levels ● Performance levels of staff
Early Retirement (voluntary, accelerated or compulsory)	● Contract terms of staff including compensation terms ● Average length of service of staff ● Average pay levels ● Average age of staff ● Performance levels of staff
Recruitment freeze and natural wastage	● Average pay levels ● Attrition rates in target roles (sense checked for relevance in current environment).
Changes to staff benefits and working patterns	● Contract terms of staff including compensation terms ● Full costs of benefits or working patterns (e.g. overtime).

Source: National Audit Office

2.6 Organisations need to understand the characteristics of the roles and staff identified for headcount reduction. They also need an understanding of the costs, including non-financial impacts such as potential service disruption, the benefits, including future cost avoidance, and timescales of staff cost reduction methods:

● Recruitment and pay freeze

● Reductions to overtime/working hours

● Redundancy and accelerated retirement (compulsory or voluntary)

● Redeployment

2.7 Organisations also need to assess the risks of options and the sensitivity of expected costs and benefits to changes in the environment. We expect organisations to have undertaken a comprehensive assessment of risks across all options that are being considered. We would also expect analysis of financial impact to have been subjected to sensitivity analysis in order to test the vulnerability of expected costs and benefits to changes in the operational environment.

2.8 We also expect organisations to consider and manage the potential wider impacts of staff cost reduction:

- Service delivery – organisations should make an assessment of how the reductions in staff will impact upon operational performance, taking a risk-based, targeted approach to monitoring performance in those areas. Indicators should be developed to track impact (see paragraph 3.2).

- Staff exiting the organisation – plans should be in place to manage exit, including regular communication, information on redeployment and retraining opportunities, and support with preparation for re-entry into the wider job market.

- Remaining workforce – organisations should have plans in place to manage the impact of restructuring on the remaining workforce. This should include regular communications on progress of the change programme, and a means of tracking the impact of change on staff welfare and motivation (see paragraph 3.2).

Assessing the overall value for money of cost reduction programme

2.9 Those responsible for managing the change as well as those in governance roles should assure themselves on the overall value for money of the programme selected, and the alignment of the cost reduction plans with the delivery of the organisation's strategic objectives and priorities. We would expect senior management to provide assurance on:

- The expected costs of the cost reduction programme, taking into account staff time, costs of transition, initial training and other disruption costs.

- Consideration of trade-offs between cost, value and risk.

- A risk management approach to any wider impacts of reform including communications and stakeholder relations.

- The processes in place to manage the transition (including governance, control, and internal and external assurance).

- The capability and capacity of the organisation to deliver the cultural change required.
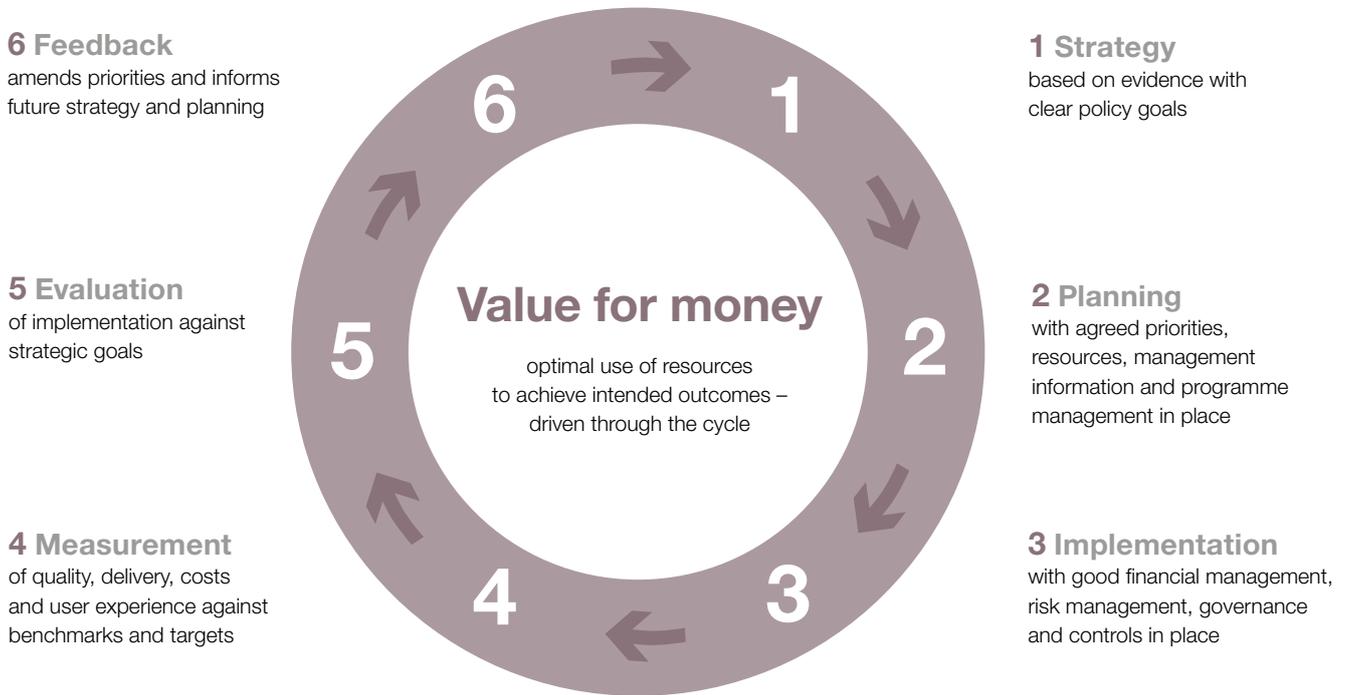
Part Three

Delivering staff cost reduction

Introduction

3.1 Successful realisation of the planned benefits from staff cost reduction activity is dependent on the same core management principles as any other project or programme (**Figure 9**). Where projects or programmes are particularly risky or complex, appropriate governance and assurance systems should be in place.

Figure 9
Core management cycle

6 Feedback
amends priorities and informs future strategy and planning

5 Evaluation
of implementation against strategic goals

4 Measurement
of quality, delivery, costs and user experience against benchmarks and targets

Value for money
optimal use of resources to achieve intended outcomes – driven through the cycle

1 Strategy
based on evidence with clear policy goals

2 Planning
with agreed priorities, resources, management information and programme management in place

3 Implementation
with good financial management, risk management, governance and controls in place

Source: National Audit Office

Setting the strategic direction for the change programme

3.2 We would expect to see a clear strategy and plan in place for the delivery of the programme and its expected benefits and savings. We would expect the plan to contain:

- a clear vision of the intended benefits of the programme;

- a clear understanding of the resources, budget and timetable for the delivery of the intended benefits;

- clear expectations for milestones and performance indicators. We would expect management information systems to be in place which provide reliable benchmark and progress data to track all indicators over the lifetime of the project. Key indicators will include:

  - cost performance against budget;

  - benefit realisation information such as headcount and staff cost reduction performance against targets;

  - critical organisational output and productivity measures against expectations for the lifetime of the project;

  - critical customer satisfaction measures;

  - information on staff engagement and morale, including indicators such as the level of sickness absence; and

  - information tracking the impact of cost reduction on staff diversity across the organisation.

- a risk analysis and management plan with actions for managing risks to the delivery of the programme, delivery of services and stakeholder relations;

- arrangements for internal and external project assurance arrangements at the appropriate level; and

- clear lines of responsibility and accountability.

Implementing the change programme

3.3 We would expect to see management information being used to track implementation of the change programme. Information for decision-makers should focus on the areas of greatest risk to the delivery of cost reduction and maintenance of customer satisfaction. We would expect information to trigger action when performance falls below agreed tolerance limits.

3.4 In addition to monitoring the delivery of the programme savings and benefits, we would expect oversight to include reviews of risk management including stakeholder relations and communications. Ongoing internal and external project assurance should also be in place.

3.5 Strong and visible leadership of the change programme is essential to achieve workforce support, to maintain momentum, and to drive the cultural change required. Leaders need to articulate the benefits and the vision of the future size and shape of the organisation, and ensure that the workforce understands its role in the success of the change programme and consequently in the future of the organisation.

Learning from the change programme

3.6 The demands for staff cost reduction are common across government and are likely to recur over the course of government efforts to reduce the fiscal deficit. As such, we would expect organisations to evaluate the delivery of their cost reduction programmes to identify instances of good practice and also to understand the causes of delay or failure. We would expect to see lessons applied to other programmes in the organisation and shared with wider government. Evaluations are likely to be more powerful when independent assurance on benefit delivery is provided, such as by the final stage of the Gateway Review process.

3.7 We would expect evaluation of staff cost reduction work to specifically focus on:

- delivery of the intended benefits and savings in the expected roles, functions and areas of the organisation;

- delivery of the intended benefits and savings to time and budget;

- the ongoing sustainability of the cost savings delivered;

- reasons for any variance in service delivery and customer satisfaction measures against expectations; and

- the impact of the programme on the organisation's remaining staff.

3.8 We would expect the organisation to share the results of its evaluation work with the Cabinet Office and with cross-government forums to support wider learning across government.

Part Four

Embedding a business as usual approach to staff cost management

Introduction

4.1   Much of this framework has focused on NAO expectations for the management of specific staff cost reduction programmes. We anticipate such programmes will be required across government as steps are taken to reduce the fiscal deficit. However, if organisations are to deliver the kind of sustainable cost reduction outlined in Figure 1, they will also need to embed principles of continuous improvement relating to staff costs management.

4.2   High quality management information remains the foundation of delivering continuous improvement in staff cost management as well as delivering cost savings. We also expect organisations committed to embedding staff cost management in their business as usual to have taken steps to change culture and behaviours as well as processes.

Using information to challenge ongoing costs

4.3   The standing information set out in paragraph 1.3 provides a platform for organisations to review and challenge their staff costs. At an organisational level, we would expect to see ongoing staff costs consistently challenged through:

- Consistent board and leadership team focus on staff costs.

- Quality assured, timely and relevant management information that is discussed and acted upon in regular management forums.

- A joined-up organisational view of staff cost management, using structures that bring together Strategy, Human Resources, Finance and Business Planning functions.

- Periodic "zero-based" budgeting reviews which challenge existing levels of staff costs across the organisational structure.

- Periodic external benchmarking exercises as described in paragraph 1.6 to evaluate organisational performance against best practice.

- Engagement with the Cabinet Office Capability Group to identify wider best practice across government.

Expanding the ownership of staff cost management

4.4 Embedding staff cost management within business as usual requires ownership of staff costs to be dispersed throughout the organisation. Staff should be incentivised to take responsibility for the efficient use of their own and others' time, and to consider the cost impact of all activity. They should also be encouraged to identify opportunities to improve processes and save costs. This may involve savings in staff time when unnecessary burdens or waste in the process are identified and removed, or it could take the form of more innovative ideas to change the way of working. Appraisal and assessment, as well as other non-financial incentives, should provide a focus for this contribution.