



Changing the Game

iMPOWER Consulting Ltd.
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This report aims to prompt debate about demand management and behaviour change in the public sector – and in particular in local government. Senior local government officers told iMPOWER that demand management represents a significant and untapped opportunity. Our research demonstrates that this opportunity is worth at least £3bn, and as much as £5bn – or the equivalent of £39m on average for a top-tier authority. Yet councils report that there are significant barriers to seizing this opportunity. This paper outlines our research findings in more detail and examines how the barriers can be overcome.

As we enter 2012, local government is settling its budgets for the next financial year. We are moving into year two of the Government's three-year plan to reduce local government grants by 28% and into the second year of significant spending cuts. Local government is now starting to make real cuts in front line services.

Local government is therefore entering a period of profound change. It will not simply be 28% smaller by the end of 2014. To survive and prosper, the sector will need to rethink what it does and how it operates. Local public services are likely to look very different as a result. As this report will highlight, our research shows this could be worth £5bn in savings.

The best authorities are already starting this work. Like any change, it is painful and challenging; some stakeholders will resist.

A common thread emerging among all authorities, whatever the political persuasion, size or type, is that they believe they must change their relationship with the citizen. Authorities realise that the current model of service delivery is not working; that trust is at historically low levels; and that citizens expect too much.

Through working with local authorities, iMPOWER has observed two recurring trends:

- ➔ A poor relationship with local citizens leads directly to spending too much money on delivering services – regardless of how notionally 'efficient' a council is.
- ➔ As the expectations and motivations of the public have evolved over time, local government has lost the trust of the public, making change even harder.

What is demand management?

Demand management is a phrase with echoes of the 1970s. But used in its modern context, it means something very different. We use it to describe the actions a local authority takes to reduce demand and the costs of demand for its services in the short, medium and long term – in contrast to 'supply management', the traditional approach to cost reduction.

In the short term, this is about changing expectations; in the medium term about changing participation; and in the long term about reducing need.

For a long time, local government has been working to reduce the cost of supply, and there can be no doubt that millions of pounds have been saved in this way. However, to deal with forthcoming challenges, authorities need to start to work to reduce demand, in all its forms.

Forthcoming iMPOWER white papers will explore in more detail the concept of what we call demand-led transformation. In this report, we focus on demand management. This paper examines the financial opportunity in transforming the relationship with the citizen, and the key steps to achieving this change.

A TIME FOR CHANGE

iMPOWER spoke to 100 senior executives in local government across the United Kingdom in November 2011, during the heart of the budget-setting process. Our research reveals that, faced with real cuts to real services, local authorities are now seeking creative alternatives to generating savings.

Whilst there are still supply-side savings to be achieved, these are no longer sufficient to meet the challenge for this year, next year and beyond – particularly given the persistently gloomy growth and deficit forecasts, which will surely mean further financial pressure in future years.

In this context, behaviour change and demand management are high on the local government executive agenda (see box-out).

THE CHALLENGE

Demand management is is:

- ➔ Addressing mismatched expectations through changes in process and communication.
- ➔ Ensuring that over-supply is reduced.
- ➔ Reducing costs of those who do have needs by tapping into citizen-driven innovations: personalisation with a purpose.
- ➔ Building the community skills and capacity to take on more responsibility and reduce needs in the long term – transforming the relationship with the citizen.

Demand management is not:

- ➔ Tightening eligibility criteria.
- ➔ Restricting access or opening hours.
- ➔ Stopping non-statutory services.
- ➔ Passing costs on to partners.

Only a quarter (25%) of executives perceive any significant appetite to address demand management at board level. Half (48%) report internal scepticism over behaviour change, the same number citing cost concerns.

Thirdly, there are capability challenges. Less than a third (31%) of respondents report being able to tailor service provision to demand with a significant degree of precision. Unsurprisingly in this context, two fifths (38%) believe that customer expectations exceed their needs. Close to half (44%) fear that implementing behaviour change is beyond their authority's current capabilities.

With two thirds of authorities (63%) experiencing a growing shortfall between funding and demand for services, executives recognise the potential for behaviour change to unleash cost savings.

The majority (57%) agree that traditional efficiency gains are no longer enough to unlock the resources needed to deliver the services their communities demand.

In this context, almost all executives (98%) believe they can reduce demand by changing behaviour.

Almost three quarters (72%) believe that managing demand for services and changing citizen behaviours offer significant potential to offset declining budgets.

Two thirds (65%) claim that these present the **single greatest** opportunity to reduce costs.

iMPOWER research, November 2011

Despite recognising its potential, very few authorities are successfully managing demand. What are the barriers? Firstly, councils may not be clear on what demand management really is, often confusing this with 'rebadged' supply management. It is clearly a challenge to plan or prioritise something that is not fully understood. Only a fifth (21%) of respondents claim their authority has a sophisticated understanding of actual levels of demand for their services. Less than a quarter (24%) claim to have clarity over citizens' motivations, while only 30% understand how motivations drive service demand.

Secondly, despite the potential for demand management and behaviour change to unlock the financial position of authorities, there remain significant concerns about the appetite for and value of such initiatives.

DYSFUNCTIONAL RELATIONSHIPS

Finally, and most significantly, our research sheds a sobering light on the dysfunctional relationship between local government and the citizen.

Authority executives paint an increasingly gloomy picture of the state of their relationships with their local citizens, measured by levels of perceived trust and engagement (see box-out). This mirrors a June 2011 Ipsos MORI survey which shows that in a list of 21 roles, managers in local government are 4th from bottom in terms of trust – below bankers, and just above journalists, government ministers and politicians generally. (Local councillors fare slightly better, being 7th from bottom).

As noted, this relationship is vitally important. Local authorities play life-changing roles in their local communities. At worst, the views of both sides are misinterpreted, and the worst of motives are suspected. Authorities and their communities are locked into a position of mutual distrust, with neither willing to make the first move.

This position is a weak one from which to manage down the costs of local services with the support of the public. But at the same time, we know that neither side is happy about the situation – in particular, local authority staff, who we know from our experience are frustrated with their lot, and their perceived inability to be honest. For example, official consultation processes are often cited as being tick-box exercises to justify an already decided policy.

KEY LEARNING

So despite the low base, there is a strong incentive on both sides to start talking. But for the relationship to change, the first mover has to be the public sector.

It is our experience that citizens behave the way they do *because the public sector behaves the way it does*. It is worrying that less than half of executives (44%) agree that citizens will never change their behaviour if local authorities do not lead the way.

Some councils, however, do understand this, and are starting to engage with their communities in different and highly effective ways. What can we learn from their experience?

iMPOWER has worked on more than 15 projects with a wide range of authorities over the past 18 months to help improve demand management and bring about behaviour change (see box-out). Our experience has demonstrated that a bolder approach to demand management, using behaviour change for staff and citizens, *can* work – and work very effectively.

A mere fifth (22%) of senior executives describe community trust in their authority as high – compared with 40% a year ago and 45% three years ago.

Only a third (32%) describe community engagement as high – compared to 41% a year ago and 44% three years ago.

As a result, more than half identify scepticism among citizens (52%) and a lack of willingness to participate in community initiatives (53%) as significant barriers to achieving behaviour change.

iMPOWER research, November 2011

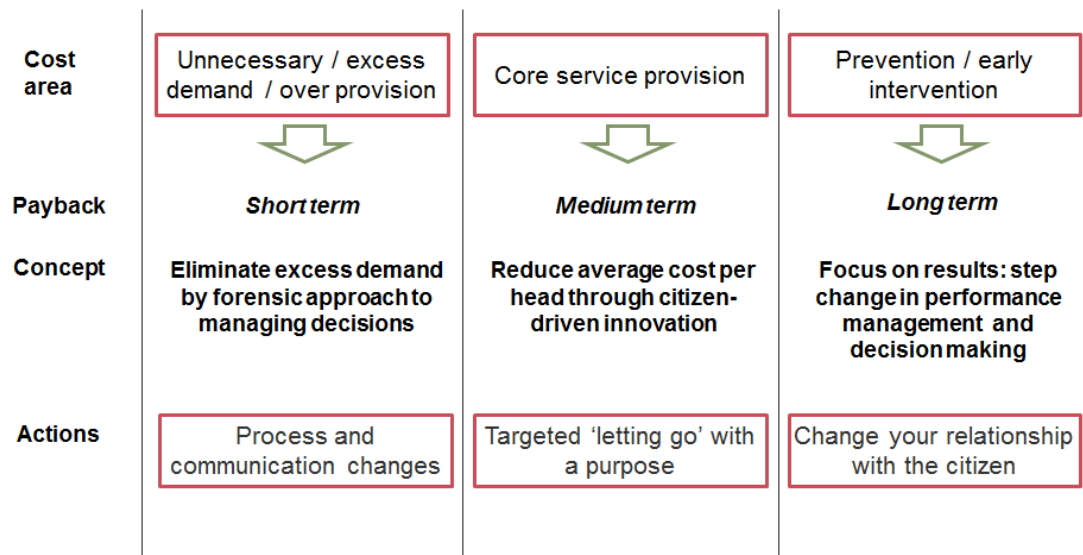
Examples of iMPOWER's work on demand management:

- Special Educational Needs
- Special Educational Needs Transport
- Adults: Reablement
- Adults: Community Budgets
- Waste and Recycling (kerbside)
- Waste and Recycling (centres)
- Children: Fostering and Adoption
- Children: NEETs
- Children: Early Intervention / Prevention
- Internal change management
- Customer self -service

THE £5 BILLION OPPORTUNITY

Demand management and behaviour change offer very significant opportunities to save money over and above traditional savings approaches. Councils that have not addressed demand management and behaviour change will be carrying excess costs *no matter how notionally efficient they are*.

The following chart sets out where savings exist within the system:



iMPOWER has taken this analysis a step further, applying it to seven key services within local government to understand and quantify the financial opportunity.

Representative of a large proportion of local government services, the seven services are:

- Adult Residential Care
- Housing (Temporary Accommodation)
- Looked After Children
- Waste Management
- Back Office & Support Costs
- Special Educational Needs Transport
- Street Cleansing

It is possible to influence the cost drivers associated with each of these services through management of demand. Using national performance and expenditure data sets, we analysed how councils are performing in comparison to their peers and determined the average costs to councils at different levels of performance.

Types of demand

- ➔ Excess demand: people asking for what they don't need.
- ➔ Avoidable demand: arising from behaviours which create problems that need to be solved.
- ➔ Preventable demand: the result of not noticing or not acting earlier to prevent problems occurring.
- ➔ Failure demand: unnecessary demand caused by the failure of services.
- ➔ Co-dependent demand: a state of need or dependence which is unintentionally reinforced by the state.

Only in the public sector is demand seen as negative, but demand can be valuable. Value demand is that which seeks to extract value from the system and which, properly understood and responded to, can lead to the transformation of current, supplier-designed forms of provision.

We focussed on performance metrics which provide an indication of the effectiveness of demand management. As an example, for street cleansing, service demand is driven by citizen behaviour in littering, fly tipping and graffiti, the levels of which are reflected in performance data.

The national data set confirms that the higher the levels of litter, fly tipping and graffiti, the higher the average cost to councils of street cleaning. This represents a common-sense opportunity to save money and improve outcomes through effective influencing of citizens' behaviour.

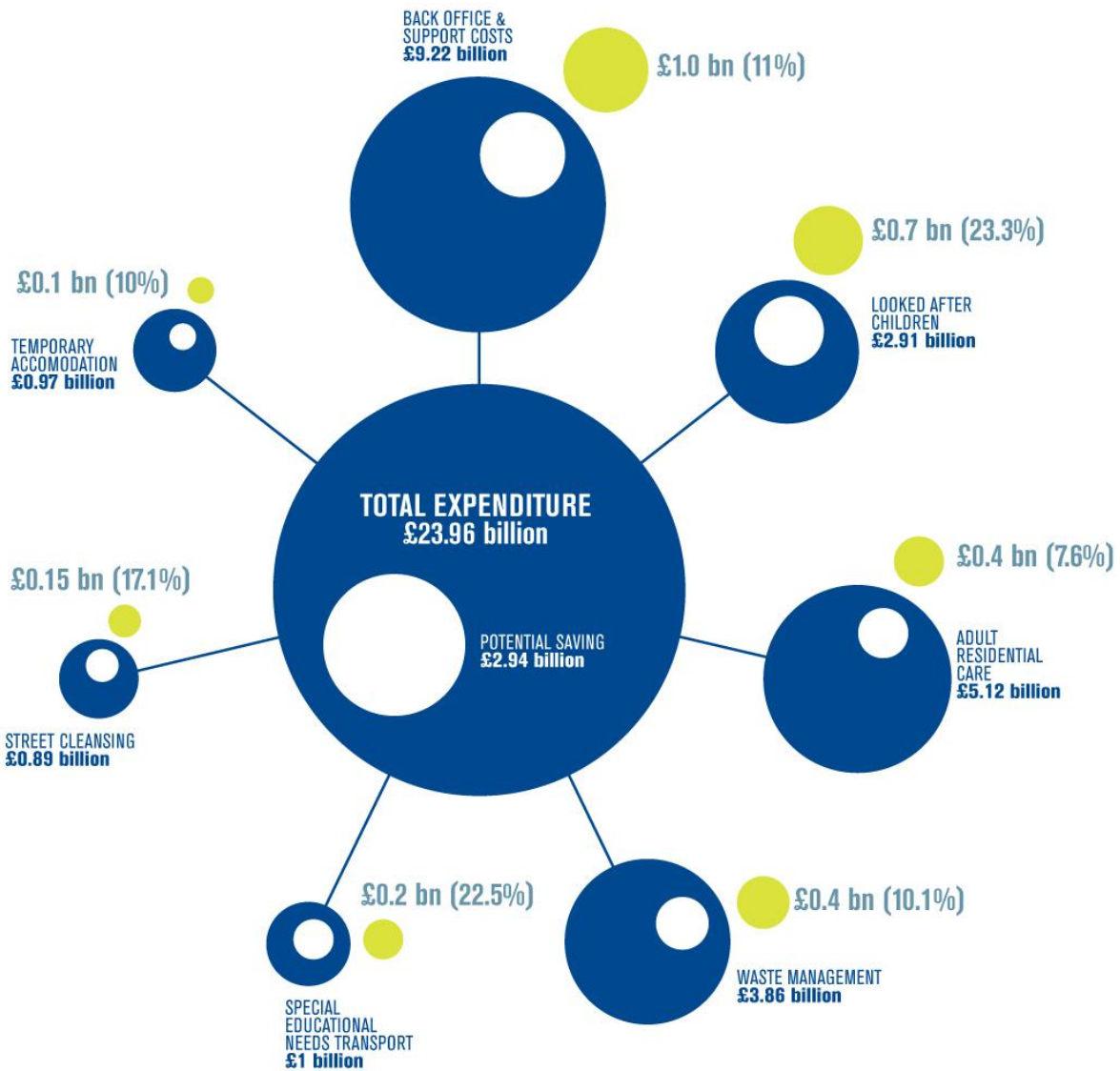
Improving local authorities' performance to the next quartile in the national data set could save £151m nationally, the equivalent of 17% of expenditure on street cleansing in addition to traditional, efficiency-based initiatives.

These savings are possible across a whole range of services, as demonstrated through our client work and our research. Overall, the average available saving equated to £3bn, equivalent to 14% of baseline expenditure for those services.

Extrapolating this over other local government services where demand management may be applied gives an indicative £5bn potential saving for English councils. In Wales, the equivalent is £0.5bn; in Scotland, £0.9bn.

Revealingly, though the executives iMPOWER spoke to readily recognised the behaviour change opportunity, they may actually be underestimating the potential benefits. Two fifths (40%) felt that 0-5% savings could be achieved, while a further 39% felt that only 6-10% could be achieved.

Potential savings from behaviour change in representative public service areas





SUMMARY AND CONCLUSION

As demand for services spirals and funding falters, council leaders are looking beyond traditional, supply-led approaches to delivering cost savings. The case for demand-led initiatives is resoundingly clear.

Behaviour change represents a game-changing opportunity for local government to readdress relationships with their communities and save taxpayers' money, but a mutual lack of trust remains a huge barrier.

Local authorities need to take action now to seize the opportunity available. And they need to make the first move; citizens will not suddenly give up their expectations for services, alter their passive consumption of those services or reduce their needs unless authorities create the conditions for this to happen.

More constructive relationships offer the potential to generate savings by managing expectations in the short term, tapping into innovations driven by citizens in the medium term, and reducing need in the long run.

Local authorities have a short window of opportunity to act. Over 2012, authorities have the opportunity to create the confidence that demand management can work and can save money. By next year's budget-setting round, stakeholders will be looking for more certainty. Councils have 12 months to achieve this.

There is an additional challenge, and that is to make change sustainable. Too often, we see temporary benefits from demand management initiatives fizzle out, because they are the exception rather than the rule. They are not part of a fundamental change strategy.

With the right tools and language, these goals *can* be achieved – with amazing results: 20% savings can be achieved in some services, *without cutting them*.

But transforming the relationship cannot be achieved with a simple 'nudge'. Authorities and communities need to work at it over a sustained period. And councils must be prepared to lead the way.

Today's citizens expect differentiated levels and types of service from the public sector. It is no longer enough to deliver a one-size-fits-all model. Services need to fit their needs and their lives more flexibly. By moving away from the 'supplier knows best' model, and tapping into the energy of citizens, we will all benefit through better outcomes and reduced costs to the taxpayer.

What is behaviour change?

We use 'behaviour change' to describe alterations in individuals' behavioural patterns, specifically in relation to public services.

We feel that behaviour change techniques and tools are very useful starting points for public authorities, but they are limited, because they don't really address the fundamental relationship issues at stake.

'Nudge' type initiatives are attractive to policy makers because they appear cheap and simple with an immediate payback. But they only address a small part of the problem – that of a mismatch in expectations, or poor choices, and can be temporary in effect.

For behaviour change approaches to really transform the relationship with the citizen, the state has to make the first move. Local authorities need to change the way they and their staff behave towards the public before the public will respond.

 A CASE STUDY: SEN TRANSPORT

Below is a series of quotes about people's experiences of a recent SEN transport project.

The Head of SEN told iMPOWER: "We didn't have any challenge in our old system. The minute we'd assessed somebody, we really did the processes for them. We just provided transport automatically and informed them after the event, rather than involving parents in those processes and giving them any degree of choice or control."

The SEN Review Officer had a slightly different take: "Our problem was that there was all of this money transporting children, when parents weren't even asked whether or not they could help out or do it better."

As we might expect, the Children's Services Director took a more strategic view: "We'd done quite a lot on cost reduction, but we were interested in somebody saying: 'You could manage demand differently'. I was a bit sceptical about whether you could actually industrialise it to the kind of numbers that you've got now. I didn't think that we'd actually get to where you've got at the moment."

"This is about having a different conversation with people, starting at a different point, a different offer, helping us to have the right conversation, that tapped into people's motivations early on rather than what had previously been, 'This is the way we do it, take it or leave it'."

Savings are invaluable, but the council was also determined to improve the level of service provided, to make a real impact on the lives of parents and children.

As a travel trainer put it: "When asked what the best bit about travelling independently is, a student replies: 'You can just get to school on your own without any hassle'. With independent travel training, every student benefits, they come back from training with a big grin on their faces feeling successful, feeling that they've achieved. Their self-esteem's really high. What more can you ask for?"

The Head Teacher is equally positive: "Most parents were very much behind it, keen to have it because it's another step towards independence of the child. That sort of face-to-face opportunity with parents, and the more parents that are coming in with children at the moment, has given us that opportunity. It's impacted in so many different ways within the school, and I think that's one of the strengths of it. To see students going out to do their own training is really good, they look really motivated, really proud that they're achieving."

Demand management in SEN transport

As a result of iMPOWER's work with one council on demand for SEN transport, almost 120 parents are now voluntarily driving their own children to school with a personal travel budget.

More focused and effective travel training is helping a number of other children become completely independent of the system. Structured contact is remodelling the way staff engage with parents. As a result, the council is projecting 15%-20% budget savings.

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