

# Transformation for the Public Good

The problems of applying lean and how to overcome it within the new public environment

## An impending storm: the new public sector environment

A review of public expenditure over the period 1900–2010 shows that it has increased from less than 15% of the UK gross domestic product (GDP) to over 48% in 2009–10. Much of the increase over this period has been driven by tremendous changes in the scale and type of publicly funded services available, including the introduction of the NHS, social care reforms and expansion of investment in education.

However, the current public sector spend as a percentage of GDP is among the highest over this period, only being exceeded by the peaks during the First and Second World Wars and during the social and economic disruption of the mid-1970s. More worrying is that public sector spend has been increasing at a rate not matched at any point in the recent past, increasing from less than 40% of GDP in 2004 to the 2010 level of 48%.

### Public sector expenditure 2010 Major Categories

**Total budget: £661 billion**

**Pensions £117 billion**  
**Welfare £105 billion**  
**Health £104 billion**  
**Education £86 billion**  
**Defence £44 billion**  
**General Government £25 billion**

The interest that the country needs to pay to service the debt that underpins this spend is already £43 billion a year, and this is before we factor in the additional liabilities for public sector pensions and any costs that arise from the former Government's commitment to underwrite mortgages.

It is against this backdrop that the Coalition Government announced the emergency budget in May 2010 and with it an initial £6.25 billion worth of efficiency savings. However, this figure was dwarfed by the Institute of Fiscal Studies' statement that the UK public sector needs to find an initial £35 billion of efficiency savings in the next 18 months, adding that all of the initiatives undertaken so far have only delivered £8.5 billion to date.

The fact that there is also around an 11% gap between the Government's income and expenditure means that without significant efficiency savings the UK will need to borrow even more, adding to our current £930 billion worth of public debt – approximately £14,000 for every man, woman and child in the UK.

It is against this backdrop that the Comprehensive Spending Review was published in October 2010, with the aim of bringing the deficit under control and cut the gap in funding from its current 11% to 1.1% by 2014–15, as well as setting it on a downward trend beyond 2015.

This equates to an average cut in spending across all departments of 19%, although this varies significantly from areas such as the NHS and international development that will actually see an increase to cuts of up to 33% for other departments, with HM Treasury, local government and the Home Office being hit by cuts of greater than the average.

This reform of public sector finances is not just restricted to administrative costs but also affects the public sector capital budgets, which will see a net reduction of 29% between 2010 and 2015 across all areas.

Collectively, this means we face the need for an almost unprecedented level of transformational change within the public sector, bringing radical changes to the way services are commissioned and managed and the disappearance or merger of non-core and inefficient services.

If you think this is just a problem for the public sector, then think again. As the public sector is the largest purchaser of products and services in

the UK, the impending storm will also impact on tens of thousands of private sector businesses, from suppliers of pharmaceuticals to outsourced services providers.

The need for a completely different approach to transformation in the public sector can be summed up in the words of one public sector Chief Executive: *'We are not going to achieve this level of saving by buying paperclips more cheaply or banning the purchase of Post-It notes.'*



## Lean: at the heart of public sector efficiency improvements for a decade

The need for massive efficiency improvements in the public sector does not mean that services can just be cut unilaterally. Most people want to see improving performance in public services, whether this means faster access to a GP, a faster turnaround on their passport application or improving standards within education. Lean has found its way into a wide range of public sector programmes to help deliver the improvements people have wanted with their public service operations from local and central government to public healthcare and the armed forces. Reported achievements have often been impressive, with improvements in the performance of specific services being accompanied by financial savings that exceed the currently required 15% as can be seen in the accompanying three short case studies.

Whilst there are many more case studies of the successful application of lean in the public sector of all different sizes and scales, it can be seen that lean has mostly been applied on small to medium-scale projects with easily standardised processes that experience relatively low levels of variability. Many of the examples of lean in the public sector have also been internal and have avoided cutting across organisational borders.

In the public sector, many of the most important and highest cost processes are complex and have high levels of variability. These strategic and complex processes often also cut across the borders of departments and external organisations. The maximum value of lean will only come when it is applied strategically to these more complex pathways.

This can be a problem because public sector organisations are frequently structured like a multinational conglomerate, with many separate corporations engaged in different activities under a single management structure, making co-ordination much harder to achieve.

### Summary case studies

#### 1. Housing association

Effective management of gas servicing of properties is essential to ensure the safety of properties and also to control costs. A short, high-impact programme reduced the associated costs by more than 25% and reduced the number of properties that were not being serviced within a 12-month period by just under 75%.

#### 2. Local council

Swift processing of Disabled Facilities Grants, which are provided to help people adapt their home to enable them to continue to live there, impacts directly on the quality of lives of many people. Focusing lean on the end-to-end process helped to reduce the overall lead-time from application to grant by 85%, whilst reducing the associated administration costs by 38%.

#### 3. Community healthcare

In the absence of a safe and effective choice, ambulance crews will often convey a vulnerable patient to hospital rather than leave him or her at risk at home. This leads to many unnecessary admissions and excessive cost. Working with an NHS Community Healthcare organisation to provide an out of hours rapid response service has given ambulance crews the options they need and reduced the overall costs associated with these patients by 45% whilst enabling more patients to remain in their own home.

This can be complicated further when multiple organisations are involved in the delivery of a single value stream as each organisation can be funded from a different pot and has different corporate objectives.

This leads to the first requirement of any successful lean programme in the public sector being the need for all parties to decide what they are trying to deliver for the benefit of the customer, whether that is a member of the public, the wider society or another agency. One maxim that will be important in

the new public sector environment will be an acceptance that it will not be possible for every organisation to win every time.

Real efficiencies will come by ensuring that services are delivered by the most efficient organisation and that will mean changes to the way that money flows in the public sector. This will be complicated by organisations attempting to retain budgets when the best value approach would be achieved by transferring the funds to a different organisation.

Another core lean concept that needs to be understood for any project to be successful in the public sector is the customer's perspective on which activities are value-adding. Whereas in the private sector this will include all activities that a customer is prepared to pay for we need to take a wider view of value-add in the public sector. For one thing, many customers do not pay directly for the public services they receive, and for another some services do not benefit any individual person, instead benefiting society as a whole. It is this wider concept of public value that means we cannot just consider the direct impact of services delivered.

### Value-adding activities in the public sector

An activity is value-adding if you can answer yes to the following three questions:  
Does the customer experience it?  
Does the customer want it to happen?  
Would the customer or the wider society if it were significantly changed or dropped?

The lack of a financial crisis and a general increase in the level of funding within the public sector as a whole over the last 10 years has meant that there has often been a lack of will to apply lean to efficiency improvements that cut across whole systems. The lack of a perceived financial crisis in the public sector, despite such things as the 2004 Gershon Report and other, more localised efficiency

reports has meant that most of the lean projects undertaken to date have tackled point issues without the strategic will being present to look at whole systems.

In the new public sector environment, we will need to see a greater focus on whole-system transformation, where organisations look at the core services they deliver as a whole rather than using lean to address small-scale projects in isolation. To achieve this will require a change in the way that senior teams think and work within the public sector, with a reduction in the amount of time spent managing the status quo and the need to allocate more time to transformational change and to dealing with the people, political and funding issues that will inevitably arise.

The problems that will arise with the wider application of lean across the public sector will not be in the use of the tools and concepts that are as applicable in the public sector as anywhere else, but in creating and managing the right environment for lean to be applied and embedded, and this needs to tackle many of the limiting beliefs that prevent public sector organisations doing anything other than delivering the services the way they have done it previously. Therefore, a key skill for people looking to lead lean programmes in the public sector will be their ability to overcome some of the limiting factors that are preventing the widespread adoption of lean to tackle whole-system transformation.

### Lean limiting factors in the public sector

Without the profit motive that drives efficiency within the private sector, it is not surprising that there is not the same sense of urgency for transformation programmes in the public sector. For nearly all public sector employees, there is not the same risk that their salaries will not be paid at the end of the month that there is in an under-performing private sector organisation. Another limiting factor is the different attitude to perceived risk in the public sector and in particular what might end up on the front page of local and national

media if mistakes are made. This is one of the reasons why there is often a committee approach to decision-making that means that decisions can take a long time to reach and are then difficult to change if, for example, the situation changes rapidly.

This need for group consensus in decision-making is one of the reasons that public sector managers can spend up to twice as long in meetings each week as their private sector counterparts. The consensus approach to decision-making also manifests itself in another limiting factor, namely the need for reports and analysis. Many transformation programmes have either been thwarted or delayed by an extended period of data gathering and analysis followed by periods of strategising and further planning. This need for analysis is not aided by the difficulties of accessing reliable information on historic performance and potential future demand within most public sector organisations and is also complicated by competing budgets between different organisations and a legacy of poor working relationships, all of which need to be overcome to enable lean to be successful.

I would like to emphasise the limiting environment that exists in most public sector organisations by adapting a statement made by Jim Easton when he was CEO of an NHS Strategic Health Authority – he is now the NHS National Director for Efficiency & Improvement – to enable it to apply to the whole public sector:

*The lack of a 'burning platform' in the public sector can be traced back to three limiting beliefs:*

- 1. An aspiration to mediocrity*
- 2. The desire to blame others for failings in the system*
- 3. A belief in a normative level of performance*

It will take a different approach to leading lean programmes in the public sector if organisations are to be able to rise to the challenge in the new environment and overcome these limiting beliefs.

## **Lean transformation in the new public sector environment**

Lean has already been shown to work within the public sector in small and medium-scale transformation projects, whether it is reducing the costs associated with managing vacant properties, reducing the time from referral to treatment in the NHS or improving the processes associated with home fire risk assessments.

Delivering the whole-system transformational change that will be required by the current financial crisis will only be possible if limiting beliefs are tackled head on, mostly through a change in the behaviour of senior leaders in the public sector through five distinct actions:

### **1. Put transformation as a core business function**

The first step will be to allocate as much air time in management meetings to the transformational change process as is allocated to managing day to day operations. This will need to be preceded by the creation of a transformation map that looks at the whole system and puts together a roadmap of the steps that will be taken over a one to three-year period. In addition, it may be necessary to invest in establishing a transformation management office to rival current project management offices.

### **2. Cut through the politics**

Some of the drive for this will need to come from the very highest parts of Government, but at a local level this is about building effective relationships between organisations and getting to grips with the tough decisions, especially those that are likely to lead to significant financial cuts and even staff losses. It will not be acceptable to repeat the words of one Chief Operating Officer entering a strategic planning meeting who said:

***'If we are going to talk about any cuts, I'm leaving right now.'***

### **3. Manage perceptions of stakeholders**

Staff will need to understand the scale and scope of the changes that are required and also how important the need for transformational change is. This requires effective, regular and high-impact communications. The perceptions of customers and other stakeholders also need to be managed in a more proactive way if you are to avoid significant levels of adverse feedback when changes do start to happen on a large scale.

### **4. Share information to reduce variation**

Looking for transformation partners who you can learn from and educate, as well as being prepared to share information more openly on how you have achieved what you have – or the problems you have encountered – will speed up the learning process.

### **5. Focus end-to-end**

Focusing on the end-to-end process and involving all the various parties in the redesign of services or changes to the commissioning processes is the key to avoiding the creation of islands of excellence that are swamped by problems and issues created by organisations upstream or downstream of your organisation.

Perhaps the biggest challenge for senior teams will be to encourage staff and managers at all levels within the public sector to develop three key lean behaviours:

- Be obsessive about finding better and more efficient ways of doing things
- Constantly search for the hidden part of the organisation that is adding no value and eliminate it
- Tackle limiting beliefs that prevent the organisation from becoming more efficient.

Organisations that can successfully get staff to adopt these three behaviours will be the winners in the new public sector environment.

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