

**Reducing
Headcount to Save
Costs: Public
Sector Options
Appraisal**
By Paul Robertson

Ways HR Consulting
1 Portland Street
Manchester
M1 3BE
T: 0870 890 9882
F: 0871 431 0655
W: wayshrconsulting.com



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1. Overview

The stark current financial reality of the public sector means monetary savings are a necessity. Demands on HR and Senior Management to meet savings targets regularly around and sometimes over 20-30% put the requirement for affordable and ultimately effective solutions in prime focus.

There are several available options for HR to consider but each has unique “pros and cons” which need to be fully considered before embarking on a course of action which may result in a sizeable shift in the organisational make-up.

The options can be broadly split into two strategies. There are redundancy strategies similar to the pathways ploughed recently by many private sector companies (whether voluntary or compulsory). These may offer relative financial and administrative simplicity but there are associated engagement and relationship management issues to contend with.

Alternatively, an organisation may choose strategies which strive to avoid or minimise redundancy. This involves using talent management or redeployment options in conjunction with natural wastage.

The scale of cuts for many organisations equates very roughly to current turnover over a three year period.

These two strategies and their component options have very different implications for both financial planning and HR activity.

Many organisations will favour an approach which includes a blend of the above. While the opportunity to combine the best of each individual option may seem attractive, such a step poses its own challenges to avoid risks and reap the most benefit.

Each of the main options is explained in more detail during the course of this paper.

2. The Main Options

Prior to any large scale reduction or transformation of headcount, people cost financial savings can be made by examining operational efficiencies and changing HR practices. This might include offering additional leave, changing/flexing hours or altering key terms and conditions. Some of these measures will be included alongside a strategy used to reduce headcount. Being seen to be considering all options for savings will both help reassure staff that all is being done to safeguard jobs and services and help achieve the credibility and

acceptance of any chosen option on headcount reductions. At the same time they are unlikely to be sufficient alone and jobs will almost certainly be lost.

2.1 Compulsory Redundancies

Pros

This is perhaps the most direct way of making the required financial savings. The role of HR is focused on shared planning or in implementing where and to what extent the cuts should be made. In some respect the eventual process of compulsory redundancies is relatively predictable and also measurable to assist financial planning.

The approach to funding redundancies is relatively clear although dependent on specific policies. Most organisations will usually have a “pot” of financial reserves which can be diverted towards the cost of redundancies leaving financial planning for core services fairly unaffected.

Another benefit to a compulsory redundancy programme is the effect on the organisation as a whole. Since the reduction in staffing numbers is focused on targeted savings, impact on the wider majority of staff can be minimised. Once plans are made there is reduced uncertainty as to which jobs will be affected as effects are aligned directly to the areas cut. A planned and orchestrated programme of compulsory redundancy should also mean that an organisation is able to retain talent in those areas where services are not being reduced.

Redundancies can be aligned to specific transformation or change programmes which can leave other areas relatively “unscathed”. They may also align most clearly with political wishes to be seen to cut waste or implement changed priorities.

Cons

As a method of financial saving, compulsory redundancy can have far reaching effects beyond the primary goal. If a large number of people are made redundant within a town or city this can also have a negative impact on the wider local economy and community. If local unemployment rates rise then the burden on social benefits is raised and thus, the dependency on the public sector for assistance rises. If the disposable income of the local community drops then local businesses can suffer due to reduced trade. The scale of these particular side effects is dependent on the region, but the actual cost can be tenfold the amount that the initial compulsory redundancy programme wished to save.

Compulsory redundancy also means that resources are being siphoned away from services and the sector itself. While this might be necessary in the short term to make longer term savings it does mean that these resources will be lost to the sector once financial stability is again achieved.

The majority of the public sector has compulsory packages well in advance of statutory minimums. The costs can be considerable. Another complexity is that redundancy packages introduced at a time when there was less financial stringency or large scale reductions were thought to be less likely may no longer be appropriate. Early users may have taken the approach that these more “generous” schemes may not be available at a later date.

There is an almost inevitable negative impact on morale when an organisation chooses to enforce a compulsory redundancy programme. This often brings the double impact of negating the organisation’s status as an ‘employer of choice’ and cultivating resentment among the family and friends of redundant former employees who will not wish to work for the organisation again.

This feeling of resentment can manifest itself through an increase in unfair dismissal claims. There may be bitterness at the manner of departure and absence of a more supportive people management strategy. The very notion of “compulsory” is disempowering and likely to get responses of anger and potential confrontation leading to increased risk of formal claims. These claims, if successful, are potentially very costly and can double or triple the financial liability on the organisation. At a time when both monetary and people resources are scarce it is a risk that most organisations cannot afford to take.

The most likely scenario is that trade unions will become more confrontational if compulsory redundancies are being pursued. Good industrial relations practices may get a shared understanding and a realisation that overall members’ jobs are being safeguarded but this is not always achieved. In order to serve their primary mandate to protect their members, unions are almost certain to oppose compulsory redundancies to the point of industrial action. If compulsory redundancies damage an organisation’s relationship with the unions then the various effects can be very damaging not just in the present but in future people management strategies which may require their cooperation.

There are also pressures on HR during compulsory redundancies. With so much scrutiny placed on the organisation’s course of action, due to the amount of negativity felt towards it, the process must be performed fairly and compliantly. Failing to do so can incur the wrath of trade unions and increase the likelihood of employment tribunal

claims against the organisation. Any flaws in the process will mean that successful employment tribunal claims will be uplifted by up to 100%, thus having the potential of doubling the costs of claims. There is an associated concern that compulsory redundancies may not fit with the overall talent management strategy. Special care must be taken in the communication and orchestration of the strategy to avoid confusion or criticism from the remaining staff and unions.

Though compulsory redundancy is supposed to be a swift and decisive measure it does create a culture of fear among those left behind. Staff will be left wondering if they will be next should the financial situation continue to worsen. A loss of engagement creates big problems and requires a further investment in HR's time to try and rectify this.

Making compulsory redundancies is a major challenge for managers already under pressure to make enforced changes. They may well feel personally vulnerable or otherwise stressed at having to manage emotionally charged situations.

2.2 Voluntary Redundancies and Enhanced Retirement Packages

Pros

An approach involving voluntary redundancies is potentially easier to implement than its compulsory counterpart. Working with those who are consenting to leave is much less damaging on those managing departure and the overall morale of the organisation. It is seen as more ethical to target willing leavers than those unwilling. Those who volunteer may already be disengaged with the organisation and are therefore less motivated. Offering them a desired way out including some sort of financial package means that the negative personal impact associated with compulsory redundancy is lessened or even negated altogether.

Sufficiently incentivised, there can be large numbers volunteering. This is advantageous in terms of meeting headcount reduction targets. These can include early retirees or long serving members of staff who will usually be earning more than the average worker. Securing the release of these employees with incentivised packages may mean you can meet financial and headcount targets without having to resort to compulsory redundancies.

Some of the emotional burden is also lifted from HR and line managers during a voluntary redundancy programme. There are fewer problems which require their time such as unfair dismissal claims or trade union battles. The likelihood of worker engagement

being affected is also lessened as those who volunteer will communicate positively about their reasons for doing so. A large part of worker disengagement is due to “survivor syndrome” when those left behind are emotionally affected by the departure of colleagues. If they feel safe in the knowledge that an exit was desired then this will not be a contributing negative factor.

The requirement to provide outplacement support may be lessened by voluntary redundancy measures. However, even if departure from the organisation is voluntarily requested, future career planning can still be supported. A voluntary redundancy “package” can be made up of financial incentives and other support such as outplacement.

Cons

The two main problems with voluntary redundancy stem from the fact that it cannot be controlled in the same way as compulsory redundancy and the increased costs of incentives.

In terms of managing and controlling the scheme there are two key issues which may result from this. Firstly, there is considerable unpredictability over who might volunteer for redundancy. The risks include an overabundance of senior or experienced staff volunteering. This may leave an organisation lacking skills in key areas, without having the time or resources to train those left behind.

Also, the volunteers may come from the wrong areas of the organisation. If the organisation is overstaffed in terms of back office support, it is unhelpful to orchestrate a voluntary redundancy programme which may bring volunteers from key areas of talent shortage.

Secondly, more people might volunteer than are required. If you offer someone the opportunity to leave, this creates a personal focus on reasons to leave and disengagement. The individual will begin to consider their options and their attachment to the organisation’s activities will be reduced. Should they not be selected in this scenario there is a dual disappointment because the financial incentive and opportunity to seek a new career will both have disappeared. However, the feeling of disengagement may remain.

Whilst these affects can be mitigated by targeting particular sectors of the organisation or workforce, the most significant disadvantage is the cost of the incentives. Organisations in recent time have found that cost of each volunteer can be as much as £30,000 to £50,000. Whilst this may be funded from “reserves” it is still a loss of resource to the organisation and its ability to fund important services.

There are also reputational costs to voluntary redundancy. By providing sometimes substantial sums of money in redundancy payments there is a danger of criticism from the media and wider public opinion who will point to other available options which may not require such an obvious financial contribution.

2.3 “Traditional Redeployment”

Pros

This approach is associated with a vacancy freeze and then redeploying staff whose post is cut into the vacancies. The major positive is the message it sends to both internal and external audiences. Trying to work within existing resources to engineer a flexible solution is very commendable and would have undoubted advantages in terms of reputation with the wider staff group. It is a strategy involving natural wastage and the movement of internal resources to best fit requirements. As such there is perhaps not larger financial costs and taboo of redundancies.

By using redeployment there is the clear financial benefit to not paying redundancy severance packages. Another associated benefit is the reduced risk of claims taken to employment tribunals.

As a less confrontational measure, redeployment is more likely than redundancy to be accepted by trade unions. A partnership approach whereby the organisation and unions work together to ensure the best outcome for staff is likely to be in alignment with the unions' ideological and political base.

Evidencing measures to avoid or minimise redundancy is a legal compliance issue for many programmes of redundancy and a requirement of the ACAS code.

Cons

The major challenge is whether enough jobs will be lost through natural wastage. It is relatively difficult to plan and reassure with certainty that sufficient financial savings will be made. It involves an element of “natural” wastage in order to succeed which can make the process fairly random and uncertain.

Similar to voluntary redundancy, talent loss is unplanned and may not suit overall organisational requirements. There is no sure way to predict or encourage how the wastage will occur and what talent will be available to fill the void. This also creates more work for managers and HR who may struggle to manage the uneven changes in organisational structure and talent.

As well as this being a problem for the organisation it also poses an issue for the affected individuals. Under this approach a redeployee often has little or no say in their final situation. Talent movement may be unaligned to the skills required or desired career development paths. All too often square pegs are attempted to be slotted into round holes. This is beneficial neither for the organisation nor for the individual.

As traditional redeployment is not a guaranteed way to make the financial savings required if natural wastage proves insufficient then redundancies might have to be considered as well. This is especially likely during the current public sector recession where people outnumber available jobs. Assuring staff that an opportunity can be found for them and not being able to deliver it is potentially more damaging than simply enforcing redundancies in the first place.

Disruption to internal politics is also a big risk under a traditional redeployment strategy. In normal circumstances it is the line manager who makes recruitment decisions with guidance from an HR representative. However, with redeployment a manager is told who and what to have. If their level of discretion and decision making is put into question then this may create resentment and a lack of engagement with people who are redeployed to their teams.

Often hidden are the costs of retraining staff to ensure that they are equipped for their new role or in the cost of underperformance during the time it takes to develop capability. Time and other resources which may not have been factored in will need to be invested.

2.4 Talent Management

A planned and managed approach to reducing jobs through talent management is similar to redeployment but has some key differentiating features. Relatively new and radical it has been used to great effect in Sunderland City Council where the intent is that all savings will come from realigning talent. It builds on the traditional redeployment method and ensures that the issues of talent suitability are overcome through assessment, matching, planning and support to employees and managers.

Pros

A talent management approach such as Sunderland's followed a commitment to "no redundancies". In an environment where job losses are becoming the expected norm this is a key differentiator and one which has generated a lot of interest in the Council. Instead of council reserves being used to supplement redundancy packages (thus the money leaves the organisation and sector), it is instead

invested back into the organisation. Talent management of this sort heavily involves a partnership approach between the organisation, employees and trade unions. For an individual it is about sustaining and building engagement in new roles based on matching employee strengths to new roles. Job matching and assessment tools are developed to ensure the right people are matched to the most suitable opportunities. Trade unions are able to engage with this approach because it fits with their ideology. Though jobs are lost, people are not and so the unions can continue to support and protect their members whilst being onside with the developments occurring within the organisation.

What this approach guarantees (and the others do not) is a commitment to organisational development. There is investment in the future careers of staff that otherwise would be lost to the organisation. The transformation is positive and there is an element of choice and planning in the future state of the organisation which is not provided by other approaches.

Talent management can be seen very favourably in the political realm. By protecting jobs the community is also protected. This is a considerably politically positive move because it prevents negative social impact.

By matching talent with required roles, performance and engagement can be enhanced. This approach adds value not just mediating the damage of cuts.

Cons

The potential cost of this approach is that it still requires financial investment in the HR infrastructure to plan, assess and match talent. The lead time and required centrality of HR leadership in making the decisions across the whole organisation may also be a barrier for some organisations.

The approach needs to be led and in some ways directed. This means that managers have to accept some loss of discretion as to how jobs are filled when they become available.

Deploying talent will alter traditional career path options when vacancies occur. This may cause some resentment from staff waiting for promotion opportunities who are then unable to apply.

This approach may also conflict with the diversity goals of the organisation. Redeployment of existing staff may risk overall stagnation in the workforce and as such its make-up will not change.

Unlike redundancy based approaches and similar to traditional redeployment the savings are difficult to fully and accurately calculate in terms of how much and when. This may cause some consternation with financial planners.

2.5 Blend

Pros

A blended approach attempts to take the best parts of each previously described solution. There are two main methods behind to a blend or mixed approach. One based on positive attributes of flexibility, eclecticism and balance. Organisations decentralise their approach and attempt to cherry pick and tailor to specific requirements. The second is a more coordinated approach where voluntary redundancies are used to create vacancies and movement alongside a formal managed approach to talent and/or redeployment.

In the first model its big advantage is the opportunity to devolve responsibility and the decision making process further down the “chain of command”. Individual departments and functions can be given the final decision of selecting the method which best suits their requirements. This approach can avoid the particular pitfall of traditional redeployment by ensuring that line managers have a say in the future of their team.

In the second model the opportunities not only exist to reduce the required spend on voluntary packages but more crucially manage the workforce implications of the reductions.

Cons

One of the main pros of a blended approach is also its biggest weakness. Its flexibility can be seen as inconsistency. If one department is being subject to redundancies whereas its neighbour is attempting redeployment strategy there is a risk of both criticism and challenge. Some staff may favour a voluntary redundancy package when this is not being offered, while others may be exiting the organisation who would rather wish to stay.

An inconsistent approach can also be used as evidence for an unfair dismissal claims. If the rationale and methodology is unclear this can be argued as unfairness if it is seen that all employees are not being treated fairly. There needs to be clear and decisive leadership to ensure that individual departmental decisions do not lead to fragmentation. An overriding plan should be clear to ensure legal challenges are minimised.

A further danger is that the decentralised blend model may challenge redeployment or talent management approaches. Firstly, line managers will likely avoid opening up opportunities for staff needing to be moved. This is to retain control over the ability to mould their team without pressure from senior decision makers. Secondly, the overall movement of talent is usually less easy to manage under a blended approach and therefore the opportunities to move staff to other roles may not be available. It requires a certain critical mass of areas of work to consider redeployment and talent management approaches for such strategies to work.

There is also an issue which is mirrored in the redeployment and managed talent approach. Financial certainty and success is difficult to predict or measure until each component of the blend is complete.

3. Conclusion

There are clearly different strategies and options available to public sector organisations when having to reduce headcount costs. It sometimes becomes a balancing act between doing what's best for the organisation while not upsetting other parties such as trade unions, government or the local community. It could also be categorised as "least detrimental alternatives" as nothing is either easy or without significant drawbacks.

Deciding on which approach to take requires an examination of which priorities goals are most important.

Consideration should also be given to the fact that the economy will eventually heal and the requirements of a public sector organisation will once again change. The challenge for the public sector is to implement strategies which will both deliver on current budget targets whilst future proofing organisations to manage the economic transitions which will occur in five or ten years.

To discuss any of the issues raised in this document in more detail, please contact:

Paul Robertson

Ways HR Consulting

1 Portland Street

Manchester M1 3BE

T: 0870 890 9882

M: 07841 804 563

E: paul.robertson@wayshrc.com

Or visit our websites:

- www.wayshrconsulting.com
- www.careersage.co.uk

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