

Crisis as Opportunity

by

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Our governments are in trouble. Even after the federal stimulus bill, we're going to have less money for our schools, our roads, our police, our poor and elderly, our parks—virtually everything government does. The numbers are staggering, and in many states, cities, and counties, the depth of the problem is unprecedented. Budgets will be cut deeply, employees will be laid off, and taxes and fees will be raised. Our leaders, both elected and appointed, face the challenge of their careers.

Amidst the carnage, how can we use this crisis as an opportunity to both save money and deliver better results?

An audacious question, perhaps. But we all know that crisis brings opportunity. During a crisis, the politically impossible become possible—because the alternatives are worse. For those who have the courage and creativity, the next few years could be the greatest opportunity of their lifetimes to make government work better and cost less—to wipe clean the way we currently do business and create 21st Century government that is results-based.

So what could you do to produce better results with less money?

1. Budget to Project Savings from Smarter Spending

How about creating a “Smarter Spending” line item in the budget, as Iowa did during the last fiscal crisis. Iowa's revenues declined for three years in a row. Toward the end, the legislature got sick of cutting budgets. Governor Tom Vilsack offered them a deal: let's put a line item called “Reinvention Savings” in the budget. We'll negotiate over the coming months, as you consider the budget, to find a series of reforms we can agree on that will save \$88.5 million. From that we will subtract the \$25 million we'll need to invest—in technology, innovation grants, community meetings, consultants, and the like—to make the reforms happen. Bottom line: \$63.5 million in savings.

After three months of meetings, the governor and legislature agreed on three reforms. The first was called “Charter Agencies:” new management flexibilities for six agencies that volunteered to accept lower appropriations and greater performance accountability, in return for the budget, personnel, procurement, and other flexibilities they needed to deliver better results. This was so successful--\$92 million in savings over the first three years, while results improved dramatically—that the governor won the prestigious Innovation in American Government Award from Harvard's Kennedy School of Government for this concept.

The second was a reinvention of the Child Welfare system, to produce better results for \$10 million less per year. This was a qualified success: results improved dramatically, exceeding targets, but savings were less than \$10 million a year in subsequent years.

The third was a new deal between state and local governments. Local governments would get less money in return for new rules that let them operate more efficiently. In Iowa, state government writes the rules, and

state legislators have historically distrusted local officials; hence they have hemmed them in with tight restrictions over what is permissible and what is not. After a year of work and dozens of community forums to develop new rules, the legislature balked on this one. The budget cuts went through, but not the reforms. Local officials were justifiably furious.

The lessons: It's hard to make an omelet without breaking eggs, and not every good idea will come to fruition. Still, Iowa saved \$63.5 million.

Recently Redmond, Washington, a city of 50,000 that is home to Microsoft, took a similar step. They call it their "Efficiency Challenge," and it will require them to come up with reforms that will save at least \$1.6 million over a biennium.

2. Budget for Outcomes, not Costs

A second promising idea is to build your budget around results, not last year's costs plus inflation. It's called Budgeting for Outcomes, and Iowa, Washington, Michigan, Dallas, and a dozen other cities, counties, and school districts have used it.

Start by deciding how much money you'll have to spend next year, or next biennium. Then work with citizens to define the 5-10 results most important to them: a better economy, better schools, better health, better safety, better mobility, a cleaner environment, and so on. Decide how much each of these outcomes is worth: divide your money between them.

For each finite pot of money, assign a team of strategic thinkers who understand the policy arena but don't have an axe to grind or a budget to protect. Ask them to do the research necessary to figure out what factors most affect the outcome—and then what strategies your city, county, school district or state should pursue.

Put all that information into a new set of budget instructions, called a Request for Results. Ask your programs and agencies to make their best offers: tell you what programs they can deliver, at what cost, with what results. Have your teams rank their offers from most cost-effective to least cost-effective, send the rankings back out, and ask for better offers. Your program managers will wake up when they see their programs ranked low and scour the globe for best practices: new ways to produce better results for less money.

Rank the new offers, start buying from the top, and draw a line when the money runs out. Send those rankings to the executive, who will use them to put together his or her budget. Adjustments to reality are always necessary: for instance, some low-ranked programs are mandated by the courts, or by another government. But most of the rankings will hold, and your budget will thus propose to fund what contributes the most to results and eliminate what contributes the least.

When the legislative body holds budget hearings, interest groups will come out of the woodwork to defend the low-ranked programs. Legislators will ask them: "What program should we move below the line to accommodate your program, and what evidence do you have that shows your program produces better results?" And that's exactly the debate you want to have at budget time.

Every citizen will be able to understand the budget, because it can be summarized in one page per result: a list of programs to be funded, a line, and below that, a list of programs you can no longer afford, because

they don't produce as much value.

3. Use New Partnerships to Engage all the Resources in Your Community

The impact of the recession on communities will be severe, as unemployment rises and foreclosures multiply. Governments will face an unprecedented need to engage all the resources in their communities: not-for-profit organizations, neighborhood organizations, businesses, unions — even other levels of government. What if counties and cities began creating shared services, even public enterprises that competed for business in other cities and counties? What if public leaders decided their most valuable role was “steering” the community? Deputized by voters, elected officials would determine overall direction—often with direct input from the people—then convene all the best “rowers” available.

Government is not the only player out there that cares about better health, for example. Many other people and organizations care about it: non-profits like the American Cancer Society, foundations, employers who want to pay less for health insurance, schools that know healthy kids learn better, and every person who wants to feel better, do more, live longer, and pay less for “sick care.” Even more have an interest in contributing to solutions: recreational sports leagues, service clubs, churches, unions, youth groups, for-profit companies that sell products and services that contribute to better health, and more.

Recognizing all that, what if governments saw their budget money not as all the money available, but as initial matching funds on which to build a much larger effort to create value? What if government convened these players and led an exploration of what we could all do together to create better health outcomes? Each of these players brings unique talent, knowledge, and skills—and, in some cases, considerable financial resources. Together, this network of players could design and put into motion a web of interconnected strategies and actions to maximize health.

Not that many of these players don't already communicate with each other and coordinate some activities. But what if government helped them take collaboration to the next level? The game would shift from balancing government budgets to building networks and orchestrating strategies that produce real value.

4. Co-Produce With Your Communities

Sometimes the best thing government can do is help communities help themselves. This takes many forms: “neighborhood watch” groups working with community policing; neighborhood organizations maintaining parks; tenant organizations managing public housing; parents’ groups organizing recreation programs; voluntary groups organizing recycling programs. People take better care of their neighborhoods when they feel like they have more control. Tacoma, Washington, has made co-production one of its major strategies for increasing safety, for example. San Francisco uses Community Boards, with voluntary mediators, to resolve more cases than the San Francisco Municipal Court. Vermont uses Community Reparative Boards to develop “reparative contracts” with people who have been convicted of low-level crimes, so justice can be done and harm to the community repaired without sending offenders to jail.

5. Harness the Power of Competition

Necessity is the mother of invention, and competition is a force that creates necessity. If public employees know their program has to compete to survive, they will embrace innovation as a way of life. This has been proven thousands of times in recent decades, whether through managed competition (competitive bidding in

which public agencies get to bid against private vendors), enterprise management (in which internal support services like print shops and fleet maintenance shops become competitive enterprises, selling their services to their customers, who are free to go elsewhere), or new wrinkles such as San Diego County's "Bid to Goal" approach (in which public agencies have to cut their costs to meet market prices, without actually going through a bidding process).

6. Exchange Flexibilities for Budget Reductions

Agencies and departments regularly complain about the red tape and bureaucracy that frustrate their ability to manage and perform. Charter Agencies pioneer a new, bureaucracy-busting deal. Agencies wishing to be chartered commit to producing measurable results – and improvements in those results – and agree to lower operating expenses. In return, the Charter Agencies are freed from red tape by being given waivers to certain rules, as well as special authorities and incentives.

To jump start productivity-enhancing and money-saving projects the Charter Agencies could not otherwise fund, some of the money that comes from the lowered operating expenses, or other sources, can go into an Innovations Fund for one time investments in change.

The State of Iowa implemented "Charter Agencies" in 2003. The initiative saved the taxpayers \$20 million a year for the first two years and \$50 million in the third year, while improving results. It won a Harvard Innovations in American Government Award in 2005 and also the Council of State Governments' Innovation Award.

7. Limit the Cost of Mistrust

Another promising avenue is to eliminate some of the costs of mistrust that plague your organization. Twenty percent of what you spend is probably designed to control the other 80 percent: to make sure nothing is stolen, nothing illegal is done, and every penny of every line item is spent according to the rules. That's important, but it's expensive. Our government bureaucracies were built on the assumption that most of us will lie, cheat, and steal, if given the opportunity.

In today's world, a lot of these rules are outdated, or there are better and cheaper alternatives to enforcement. Information technology allows us to short-circuit cumbersome procurement and personnel procedures and to track spending much more effectively. If you review all your spending on mistrust, you'll find multiple opportunities to save. One of our clients found that seven signatures were required to approve a travel request. Since everyone who signed knew that six others would review the request, all of them just signed and passed it on. Hence when they cut the number of signatures required to one, the number of approvals actually fell.

Salt Lake County, in Utah, and San Jose, California, are both using "Bureaucracy Busting" strategies to eliminate rules that get in the way of performance. A team in San Jose has collected lists of rules that people feel have outlived their usefulness. A two-day WorkOut focused on streamlining procurement, particularly the Request for Proposals process. Many steps were eliminated from the process, and a quicker process was developed for small contracts.

8. Reduce Your Subsidies

Subsidies come in all forms: tax credits or abatements, fees and charges that are below the cost of a service, support for institutions used by people of all incomes. These subsidies are often not targeted on those who truly need them. (Nor are they targeted on results.) By examining subsidies, you can make conscious decisions about who should be subsidized and who should pay more. In tough times, perhaps you can't afford to subsidize upper-middle-class golfers or boaters. Perhaps you could start charging most people for recreation programs but allowing low-income people to participate for free. When Sunnyvale, California, decided to phase out taxpayer support for recreational programs, it turned the recreation department into a public enterprise. Freed from bureaucratic controls, the new Leisure Services enterprise grew rapidly, by increasing its base of paying customers. By listening to its customers, inventing new programs, adapting schedules to meet customers' needs, and using smart pricing, it captured ever more of residents' recreation dollars.

9. Empower Your Employees

Most employees know how to save money. They see waste all around them. But no one ever asks for their input, so they keep their mouths shut. Many organizations have dramatically improved their productivity by training their employees in process improvement and empowering them to make changes. We recently met with a self-managed road marking crew in San Jose, California—the people who paint the stripes and put the safety dots on the streets and highways. The city trained them to analyze the cost of everything they did, while also helping them develop the skills to work in a team. In a few short years, they tripled their productivity. That translated into millions of dollars the city could spend on other priorities.

In Conclusion

These are simplified explanations of just a few possible strategies. But you get the idea. Let's use this crisis to break the mold. Let's start rethinking how we run our public institutions, so we can deliver the results citizens want at a price they're willing to pay. The gleam through the dark clouds is not more government or less government but better government—government designed for the 21st century.

How we weather this storm may define our generation in public service. But success will require leaders who have the courage to lead. It will require employees who are encouraged and supported to use their valuable knowledge to continuously improve their operations. It will require executives and legislators willing to invest their first dollars in change, even when they are cutting budgets. And it will require union leaders willing to partner with management to shape innovative changes that improve services, save money, and improve working conditions for employees.

Change is frightening. Change creates resistance. But at this point, the status quo is even more frightening. If we refuse to change, the future looks disturbingly like a downward spiral, in which we deliver results citizens don't like at a price they're not willing to pay.