

A summary of David Osborne's presentation to the Versaterm Future Directions Advisory Committee

>>>Participants

- Eldon Amoroso, London Police Service
- Jim Chu, Vancouver Police Department
- Craig Fraser (consultant with PERF)
- Mark Pray, Aurora Police IT manager
- Bob Lunney (consultant with PERF)
- Bernice and David Goudge
- Paul Labarge
- Versaterm managers

Doing more with Less

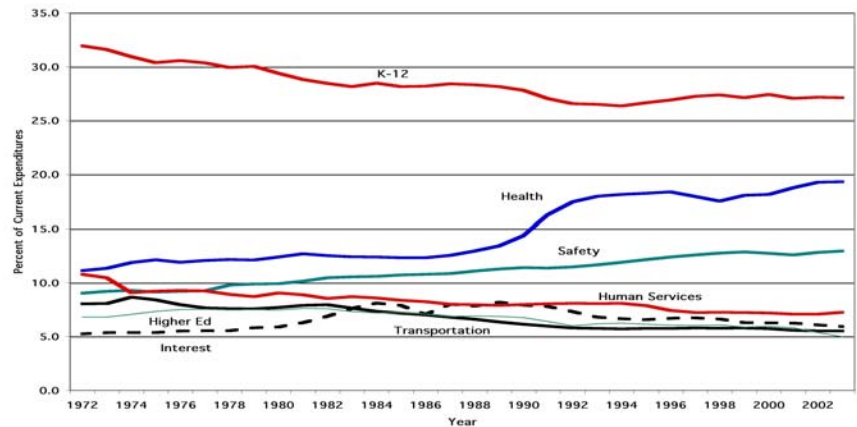
Introduction

The following is a digest of a presentation given by David Osborne (co-author of "Reinventing Government") to the Versaterm Future Directions Advisory Committee on Feb 22, 2005 in Scottsdale AZ. It is based on his most recent book, "The Price of Government" co-authored with Peter Hutchinson and also draws on his prior book, "The Re-inventor's Fieldbook".

The Growing Government Financial Crisis

Mr. Osborne's "core" point is that the fiscal crisis currently being experienced to some greater or lesser degree by most levels of Government is actually a permanent condition (for most of our lifetimes at least). In fact, he proposes that the fiscal situation for all levels of Government is going to get a lot worse in the next 5 to 15 years, and as the lowest level in the Government hierarchy, local governments will be impacted sooner and more severely than State and Federal levels through the wonders of down-loading, among others.

The problem with this growing financial crisis is that it is cost driven rather than revenue driven. We face a near "perfect storm" at the Federal and State/Provincial levels of government triggered by growing health care costs (>10% per year) and massive Pension and Social Security obligations as the baby-boomers (71 million in the US and a comparable population proportion in Canada borne between 1946 and 1960) reach retirement age and begin to collect pensions (and consume more medical services as they age) in the next 5 years or so. The impact of the baby-boom generation on the distribution of available State and Local government budget dollars over time (1972-2002) is illustrated by the graph below



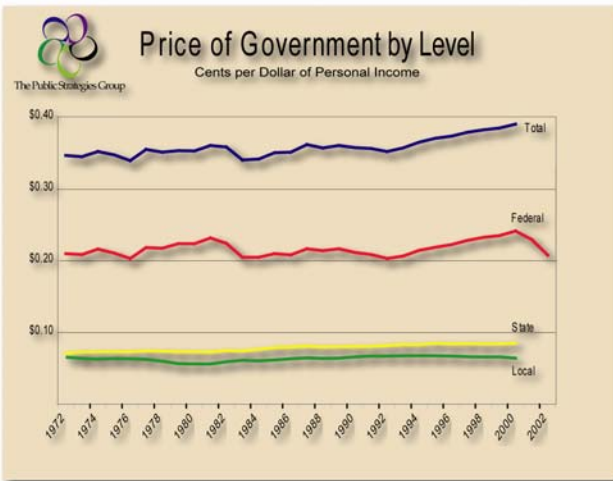
Distribution of State and Local Spending, 1972-2002

Note how the K-12 education portion drops as the boomers age out of the school systems and then how health care costs begin to grow as they hit their 40s and 50s. The share for health care costs will continue to grow as the boomers age into retirement and beyond. Statistics show that most people use over half of their lifetime "quota" of medical services in their elderly years.

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Unlike the situation in most industries, technological advancements won't off-set these rising costs since new drugs and new advanced medical treatments enable people to live longer and will continue to actually drive up the growing medical costs per capita. Increasing revenues in the form of more and higher taxes can't solve the problem either. First, the rate of growth in these critical costs that absorb so much of the government budget exceed any acceptable tax increase plan. Second, there is a point of tax revolt widely recognized in most countries (certainly in North America) when taxes at all levels consume over 40% of average personal income (or 20% of GDP).

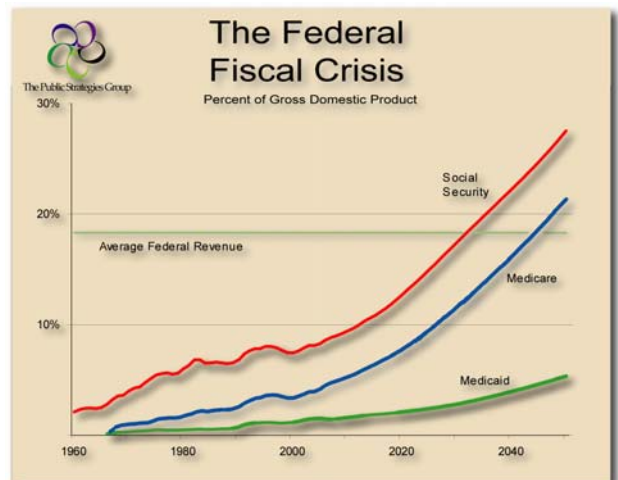


That revolt comes in many forms (tax evasion, thrown out governments, etc.). The chart at the left shows that percentage experienced in the US over the past 30 years.

The social security and pension liabilities cannot be defaulted on by any government that expects to get re-elected. The citizens have also clearly indicated that they expect to be able to avail themselves of the best of medical care and are willing to pay for it (and democracy demands that the citizens who can't pay for it get the help they need to afford top quality medical care in the form of Medicaid and Medicare). In fact, these benefits have recently been expanded. The next chart dramatically illustrates the startling growth in health care and social security costs that the retiring baby boomers will cause in ensuing years. It shows that both Medicare and Social Security, each by themselves, consume over 20% of GDP by 2040, far exceeding any reasonable growth in government revenue.

So, we have to face the fact that the money needed for these rapidly growing social services will have to come from somewhere, likely from the budgets of the other government services...including public safety. So, we'd better start figuring out how we can do more with less.

Another question he addressed was how soon the permanence of the fiscal crisis will be widely recognized (or at least acknowledged) by politicians and senior bureaucrats. Falling back on demographics, David pointed out that some recognition started in the mid 70s, based on experience with schools and post secondary education profiles. However, retirement was years away so it was conveniently ignored. Now, with baby-boomer retirement within the 5 year planning horizon, it is harder to ignore. We expect widespread and hopefully realistic reaction to the situation within 5 years or so and universal adaptation to the new fiscal environment before 2018.



What can be done?

First, one has to realize that government was not always bureaucratic; prior to 1890, government was very small and mostly local. The industrial revolution caused governments to have to grow and bureaucracy was the only reasonable way to manage these much larger organizations given the education levels and management tools available then. And bureaucracy really blossomed during the Second World War. It took 50 years to evolve to the current bureaucratic government structures and it may very well take another 50 years (from the 70s) to evolve to something better and more efficient.

That led David to offer the point that "Crisis often breeds Opportunity" (and we expect the existence of such "Crisis" to be widely recognized soon). We all know how tough it is to really change the way an organization works; it takes a crisis for senior managers and politicians to be willing to take the perceived risks and brave the obstacles to effect real change. David and his compatriots have been assisting State governments to deal with such fiscal crisis for several years and have developed strategies to deal with them. He outlined 5 broad directions that could help government agencies deal with the ever shrinking budgets.

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They were:

- Smarter Budgets (budgeting for measurable outcomes rather than simple across-the-board “cuts”)
- Smarter Sizing (bigger is rarely better or more efficient; instead, do only what is “core”)
- Smarter Spending (competitive procurement, even competing against in-house staff)
- Smarter Management (clearer relationship between desired results and rewards)
- Smarter Leadership (build trust, clear statement of directions, engage staff)

Collectively, these keys require that all “players” get engaged, concentrating on improving productivity and service quality to get better results with less money.

The first step, Smarter Budgets (and likely the toughest because of that), is to change the way budgets are developed and set. Traditionally, governments develop next years budget by identifying additions to last years budget (from inflation, salary increases, new programs, etc.), so any suggestion that next years budget be *smaller* than last years causes consternation. Cuts are generally resisted by each department and unit (who don't want to have their ox gored) so across the board % cuts often result and nothing could be more ineffective. The valued programs feel the same pain as the irrelevant ones. That process has to change before we can start the journey to do more with less.

First, we need to do a realistic forecast of short and longer term revenues (the budget “caps” in future years) and we have to face the fact that these are in fact absolute “caps”. Then we need to do the same thing for short and longer term operating expenses (to just get done what we are doing now) and then, if the situation outlined above applies to your agency, you need to identify the shortfall in each of the coming years. Reality is unlikely to be better than that picture; more likely worse. Now add in the important new programs and services that are expected and you have a second, even more severe view of the shortfall that you are facing.

Next, we have to focus on the Outcomes expected from our agency, what matters most to the citizens? What matters most to your political masters? What activities are defined by law? Focus groups can be used to identify how citizens value your agencies services. For a Police agency, these activities might be grouped under headings like:

- Prevention
- Preparedness
- Response/Recovery
- Investigation
- Prosecution

for instance:

What proportion of your budget are you currently spending for each and how does that distribution match the value as viewed by the tax payers and their elected representatives? If they don't match up well (and they probably won't), you will have to rethink your strategies, look into how other agencies have managed to reduce their costs for things less valued by their citizens. Cause and effect maps can help here. You may find that you have to change how you do things (e.g. telephone reporting instead of attending incidents where historically solution rates have been low, or outsourcing some duties to others such as having alarm companies do first response to alarms, since most are actually false alarms, for instance). Everything must be on the table, no “sacred cows”. This transition will be very tough to execute and will take several years to evolve into an alternative method of doing budgets. But if these predictions are real, and we believe they are, you will need that lead time to deal with the financial crisis that is inevitably coming. The agency or department that can show that they are reducing costs while improving the value received from each taxpayers dollar will likely feel the scythe less than those who are unprepared.

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3



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Smarter Sizing starts with concentration on “core” functions; what do you absolutely have to do? Any organization and any process over time collects many ancillary duties and assumed responsibilities for a variety of reasons and they become part of that “base budget” that we may have to abandon. Some may just not have to be done at all; others should be done by others (other agencies or even the private sector). It may involve consolidation of certain functions with other agencies in various forms (e.g central shared dispatch). The focus has to be “doing the right work, in the right way, with the right staff”. The best way to gain budget headroom is to eliminate responsibilities altogether. Get back to basics. It is the best way to be able to concentrate on and deliver to your “core” responsibilities. That critical review also includes looking at the many staff members tied up with administrative support (non police) duties; many of these likely could be done for less by other city departments or again, by the private sector. And, of course, we have to include using automation products like Versadex here because they have often shown that administrative staff counts can be reduced as a result of their use. In essence, you want to be able to focus on the “keeps”, not on the “cuts”.

An ever present and vital component of any strategy to “do more with less” is “measurement”. We not only have to identify what core activities and functions that we need to do, but we also need to identify at least 3 measurements used to tell how well we are doing the job and what doing it is costing in resources. These measurements then enable us to tackle the next approach, “Smarter Spending”. If at all possible, you want to introduce a competitive aspect into how you acquire or deliver services. Competition can be with other public agencies or with the private sector; it can even be with your existing staff members. The British home office compares Chief Constables results between the 43 Constabularies in the UK, for instance. The measurements will allow you to define how the deliverables will be measured and evaluated, can be the basis for procurements and contracts and be used for injecting the competitive spirit (to deliver better results for less money), even for measuring the effectiveness of the change actions that you have taken. Such measurements are undoubtedly the most critical prerequisite to be developed.

Smarter Management starts with separating the functions that you do into policy, compliance and internal service functions. You have more flexibility and choices managing internal service functions (such as personnel, fleet, dispatch, etc.) than the front line primary services, so concentrate initially on that. Typically, your services are provided by an internal monopoly, possibly by the City staff, under no pressure to be competitive, so, if you can't yet sub-contract them, find a way to introduce competition. The mind-set of a monopoly must be corrected. If it can't be made competitive, then force it to be customer oriented, evaluated by an appointed board of “customers” of the service who set the artificial prices they can “charge” (thus essentially setting their budget “caps”), their salary and organizational adjustments, etc. If their budgets are cut, have the overflow work done by an outside competitor (for comparable “competition”). One has to change the mindset to a “customer and quality” view from the more common “I'm all right Jack” monopoly view. Setting such service charges also make the service consumers (or “buyers”) sensitive to the cost of the services they may have taken for granted. Being able to show such management improvement steps will also gain agency credibility when the budget vice tightens even further in future years.

Smarter Leadership essentially recognizes that employees today are better educated than most managers were in the 50s and 60s. Thus the bureaucratic and control based organizations and management style of that era is terribly frustrating to the staff today and expensive too. Organizational processes should not first and foremost be designed to *prevent* mistakes and fraud, as most bureaucratic processes in government do today, but rather to spend a small fraction of that effort to *audit and detect* problems after the fact. Often, the bureaucratic controls for a transaction cost more than the transaction is worth! Controls that prevent errors also introduce delays and overhead and remove responsibility and accountability from line staff.

Management has to have the measurements in place (such as COMPSTAT, Citistat, etc.) to reward performance (achieved results) not just good intentions. Clear and measurable objectives, rapid feedback, both positive and negative and meaningful rewards and consequences are critical to making the transition to the 21st century accountability-based management regime as often illustrated by Compstat use in New York City. David notes that most major private sector companies began to face new competitive pressures in the 90s and most have made that shift already, so government must follow. Businesses found that automated tools are vital to being able to apply such measurements on a daily basis. The new Versadex Crime and Operational Analysis tools are specifically aimed at doing that.

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There are many other techniques to improve personnel leadership and management in the public sector where the bonus, profit sharing and financial reward techniques used by the private sector can't be applied; these public sector alternatives are described in Dr. Osborne's books and we encourage you to read them. But a key point he makes is that leadership must first overcome the latent distrust that is so often found among public sector employees. Most employees recognize the gross inefficiency of their processes and procedures but accept it as a consequence of having bureaucratic managers who don't care. Without gaining their confidence and trust, your attempts to move your organization into the 21st century will be frustrating and less than effective.

Versaterm hosts such presentations to our Advisory Committee in order to identify desired longer term directions for our product release development efforts. In this instance, their guidance concluded that we must press ahead to provide powerful tools to help our customers measure their performance, their achievement of identified goals and their resource usage to equip them to "do more with less". And they also concluded that the new Cognos Crime and Operational Analysis tools being rolled out to US customers this year and Canadian customers next year are exactly the kind of tools needed. Versaterm also subsequently sponsored Dr. Osborne to speak at the Major City Chiefs Conference in Sun Valley Idaho in June. His talk there was also well received.

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