Why Shared Services?

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“The trouble with our times is that the future is not what it used to be.”

Paul Valery, French poet
Figure 17: Year-to-Year Change in GF Revenues and Expenditures

Source: National League of Cities, 2006
Distribution of State and Local Spending, 1972-2002

- K-12
- Health
- Safety
- Human Services
- Transportation
- Interest
The Fiscal Crisis is Permanent

A “perfect storm” – the convergence of:

• Inexorable cost drivers:
  • Pension (and Social Security) obligations as population ages.
  • 10% annual increase in health care costs.
The Goal:
Buy better results with less money.
Gainsharing

• Definition: Sharing savings with employees, by letting work group members that don’t use all their budget but hit performance goals keep some portion (eg. 50%)

• Gainsharing has worked in dozens of places

• It turns every employee into a budget cutter
Managed Competition

Tools:

• Competitive bidding
  – Public vs. private competition
  – Private vs. private competition (outsourcing)
  – Public vs. public competition

• Competitive benchmarking
Enterprise Management

- Separate policy, compliance, and service functions
- Organize services that can be charged to customers as enterprise funds
- Deregulate: give them managerial flexibility
- Withdraw monopolies from marketplace services; leave others as “utilities”
- Withdraw appropriations from enterprises; force them to earn their revenue from their customers
Trading Flexibility for Productivity: “Charter Agencies”

• Executive negotiates “Flexible Performance Agreements” with charter agency directors.

• Agency agrees to produce specific results over 2-3 year time frame.

• Agreement includes specific rewards and sanctions for performance.

• Agreement specifies new flexibilities granted to charter agency.
Potential Flexibilities

Examples from Iowa:

- “Freedom from FTE ceilings or other employment controls.
- “Authority to waive personnel rules and do what makes sense.
- “Authority to waive procurement rules and buy what makes sense.
- “Authority to waive Information Technology rules and buy the computers and software you want.
Potential Flexibilities (2)

• “Authority to keep half of this year’s unspent money and spend it next year.

• “Authority to keep and spend proceeds from lease or sale of capital assets.

• “Authority to reprogram money between accounts.

• “Authority to waive administrative rules.

• “Access to $3 million Transformation Grant Fund.
Shared Services

- Police
- Fire
- Internet and other I.T. services
- 911 systems
- Fleet services
- Back office functions
Budgeting for Outcomes

- **States**
  - Washington
  - Iowa
  - South Carolina
  - Michigan
  - Louisiana Dept. of Culture, Recreation & Tourism

- **School Districts**
  - Jefferson County, Colorado
  - Billings, Montana

- **Cities**
  - Azusa, CA
  - Los Angeles
  - Spokane, WA
  - Dallas, TX
  - Ft. Collins, CO

- **Counties**
  - Snohomish, WA.
  - Multnomah, Oregon
  - Mesa County, CO
## The Current Budget Game

### Cost-Based Budgeting

<table>
<thead>
<tr>
<th>Starting Point</th>
<th>Last Year = BASE costs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Focus</strong></td>
<td>Add/ Subtract costs re: BASE</td>
</tr>
<tr>
<td><strong>Addition</strong></td>
<td>Autopilot increases = new BASE Plus “needs”</td>
</tr>
<tr>
<td><strong>Subtraction</strong></td>
<td>“Cut” from <strong>new</strong> BASE</td>
</tr>
<tr>
<td><strong>Submission</strong></td>
<td>Justification for needs/ costs -- plus a little extra</td>
</tr>
</tbody>
</table>
### The Current Game (cont’d)

<table>
<thead>
<tr>
<th>Incentives</th>
<th>Build up costs - make cuts hard</th>
</tr>
</thead>
<tbody>
<tr>
<td>Analyst’s job</td>
<td>Find hidden/unnecessary costs</td>
</tr>
<tr>
<td>Elected’s job</td>
<td>Choose to cut services, OR Raise taxes to cover costs GET BLAMED!</td>
</tr>
<tr>
<td>Focus of debate</td>
<td>What to cut What to tax</td>
</tr>
<tr>
<td>What drives decisions?</td>
<td>Avoiding pain before next election</td>
</tr>
</tbody>
</table>
Remember Albert Einstein’s definition of insanity???

“Doing the same thing over and over again and expecting a different result.”
Budgeting for Outcomes Asks Four Basic Questions

1. How much revenue will we have: What price of government will we charge our citizens?
2. What outcomes matter most to our citizens?
3. How much should we spend to achieve each outcome?
4. How can we BEST deliver each outcome that citizens expect?
1. Setting the Price of Government:

How Much Revenue Will You Have?

- Tax and fee rates are *choices*.
- Look at the historical data: citizens have been telling you how much they are willing to spend for decades.
- Set the price so that it is *acceptable, adequate* and *competitive*. 
A Useful Tool

The Price of Government =

All Taxes + Fees + Charges

All Personal Income
The Price of Government in the US
1953 to 2003
Cents per Dollar of Personal Income

All Federal, State and Local
US State and Local Price of Government

Cents per Dollar of Personal Income

State

Local

The Public Strategies Group
2. Setting the Priorities of Government: The Outcomes Citizens Desire

- Ask the citizens:
  - Surveys
  - Focus groups
  - Internet surveys

- But elected leaders should make the final decisions.
An Example: Spokane’s Priorities

“Results: I want …”

• The opportunity to learn and grow.
• The opportunity to lead a healthy life.
• Clean air, water, land with healthy parks.
• Strong, responsive leadership that gets results.
• To get where I want to go safe and on time.
• To reduce vulnerability of citizens at risk.
• To feel safe and secure.
• A healthy and growing economy.
3. Pricing the Priorities

- How much are they each worth? Not: How much do they cost?

- It’s a value judgment, not science.
4. Delivering the Outcomes: Results Teams Create Purchasing Strategies

- Results Teams are “Buying Agents” for citizens
- They each have 8-10 members (a small jurisdiction might use just one team)
- They include strategic thinkers from the executive office, budget office, departments, even citizens and outside experts
Results Teams’ Tasks

• First task: Define 3 key indicators for each result. For example, for health:
  • Infant mortality rate
  • Self-perception of health on survey
  • Percentage with health insurance
Next Task: Figure Out What Really Matters

- What causes the result?
- What factors have the most impact?
- A tool we use: a “cause-and-effect map”
Sample Cause-and-Effect Map:

**Improve Safety of People & Property**

- Prevention
  - Safety standards
  - Involving citizens
  - Mitigating risks

- Preparedness
  - Planning
  - Training
  - Equipping

- Response/Recovery
  - Managing crises/consequences
  - Justice
  - Mutual aid
Potential Public Safety Strategies

• Prevention -- Examples:
  • Sunnyvale and Domestic Violence
  • Allegheny County program to reduce recidivism
  • Community engagement/policing

• Justice System -- Examples:
  • Rethinking drug enforcement
  • Unclogging the courts: e.g. with drug courts & community courts
Sample Cause-and-Effect Map for Health

1. Environment
   - Adequate food
   - Safe food
   - Adequate water
   - Safe water
   - Exposure to hazardous conditions
   - Exposure to hazardous materials

2. Behavior
   - Self-protect from accidents and injury
   - Reduce substance abuse
   - Healthy diet
   - Healthy exercise
   - Healthy sexual behavior
   - Reduce tobacco use
   - Reduce obesity

3. Health Care
   - Emergency care
   - Specialty care
   - Chronic/long term care
   - Access to coverage
   - Geographic distribution of providers and facilities
   - Quality providers and facilities
   - See appropriate care

4. Risk Factors
   - Race/ethnicity
   - Socioeconomic status
   - Occupation
   - Age and gender
   - Congenital & Genetic factors
   - Exposure to communicable diseases
   - Exposure to hazardous conditions
   - Exposure to hazardous materials
   - Adequate water

5. Health
   - Adequate water
   - Safe food
   - Self-protect from accidents and injury
   - Reduce substance abuse
   - Healthy diet
   - Healthy exercise
   - Healthy sexual behavior
   - Reduce tobacco use
   - Reduce obesity

6. Education and understanding
Health Impact vs. Spending

Impact

- 10% Access to care
- 20% Environment
- 20% Genetics
- 50% Health behavior

National Health Expenditures
1.2 trillion

Access to care 88%

Behavior 4%

Other 8%

Source: Centers for Disease Control and Prevention, University of California at San Francisco, Institute for the Future
Purchasing Plans: Improve the Outcome at the Set Price

- Define a basic purchasing strategy: What matters most?
- Results Teams issue “Requests for Results”
- Ideally, “sellers” would include local government agencies, other governments, non-profits, and for-profits.
“Sellers” Make Offers

- Offers promise a specific level of performance at a specific price.
- They include proposed measures of performance.
- Offers assume no guarantee of funding based on historic levels.
- Offers are opportunities for departments to propose new, innovative practices.
Buyers Seek the Most Results for the Money

- Rank order offers
- Start buying from the top
- Draw a line when they run out of money
- Send the rankings out and ask sellers to prepare better offers
Innovative Offers: Examples

- Los Angeles: New method to repave streets, using cold slurry seal
- Ft. Collins, Co.: Dial-a-Ride Solution
- Multnomah County, Or.: Combined 2 pre-trial supervision programs; created interdepartmental group to coordinate 3 anti-gang initiatives
**Health Care Spending Plan**

$3.7 billion
GF-S and Health Services Account

**Savings:** $328 million

**Key Purchases**
- Medicaid health care for 908,600 vulnerable children and adults.
- All current children’s health programs.
- Statewide public health programs to protect all citizens.
- Public health programs to ensure the health of babies and the safety of food.
- Basic Health Plan insurance for 81,000 low-income people.
- Expanded financial help to community health clinics.

**Examples of what’s not purchased**
- Basic Health Plan coverage for 59,800 adults.
- Health coverage for the medically indigent.
- Optional Medicaid coverage for workers with disabilities.
- Optional adult dental, vision, and hearing services.
After Budget Passes, Buyers Negotiate Performance Agreements/Contracts with Sellers

- Performance contracts with other government agencies, corporations, and non-profit organizations
- Flexible Performance Agreements with own-government agencies
The Bottom Line

- Balanced budget
- Focus on the ‘keeps,’ not the cuts
- Buy results, not costs
- Low value spending is forced out of the budget
- Important new investments go to the front of the queue
- General interest trumps special interests
- Performance accountability
- Continuous reform/ improvement
- “Common Sense” communications
Budgeting for Outcomes Is a Key Step in Buying Better Results, But Just the First Step

- You need to transform your bureaucracy permanently, to create a culture of continuous improvement.
- You need to invest in change (training, team-building, technology, consulting, professional development).
- You need to manage the change process.
There’s More ...