

The Price of Government

Getting the Results We Need in an Age of Permanent Fiscal Crisis

David Osborne (co-author of *Reinventing Government*) and Peter Hutchinson

Government is broke. The 2004 federal deficit will set a record. The states have suffered three years of record shortfalls. Cities, counties and school districts are laying off policemen and teachers, closing schools, and cutting services. Government leaders have patched together combinations of accounting gimmicks, one time fixes, real cuts, and tax and fee increases to relieve the fiscal pain. But it won't go away.

Overall, American governments are enduring their worst fiscal crisis since World War II. But this one will be permanent. On one side are skyrocketing costs for health care, Social Security and pensions. On the other is opposition to tax increases. In the face of this crisis the bankrupt ideologies of left and right offer little guidance. *The Price of Government* goes beyond left and right to show a third way: a results-based government that can give citizens the outcomes they want at a price they are willing to pay.

The Price of Government begins by describing a radically different approach to budgeting – Budgeting for Outcomes - that focuses on buying results for citizens rather than cutting or adding to last year's spending programs. It goes on to show how leaders can use consolidation, competition, customer choice, and a relentless focus on results to save millions while improving public services, at all levels of government.

In government, as in most realms of life, we find it safer and easier to do what we've always done, simply because we've always done it. Only on rare occasions — usually at times of crisis — do we step back to gain a broader perspective, erase all our preconceived ideas and routine behaviors, and take a fresh look at how to make the most of our limited time and resources. Budgeting for Outcomes allows public leaders to do some of this big-picture, creative thinking *each time* they prepare a budget. In fact, the process demands it.

Budgeting for Outcomes was pioneered by Governor Gary Locke of Washington at a time when his state faced a \$2.5 billion shortfall in its budget. The Seattle Times described the rationale for Locke's approach this way:

The usual, political way to handle a projected deficit is to take last year's budget and cut. It is like taking last year's family car and reducing its weight with a blowtorch and shears. But cutting \$2 billion from this vehicle does not make it a compact; it makes it a wreck. What is wanted is a budget designed from the ground up.

In traditional budgeting, leaders start with last year's costs, then add or subtract. In Outcome Budgeting, they start with the results citizens value. This approach clears away all the games department's play – padding costs and hiding excess, to protect themselves against the inevitable cuts. It focuses squarely on the real issue: producing results citizens value at a price they are willing to pay. The key steps in Budgeting for Outcomes include:

Set the price of government: Establish up front how much citizens are willing to spend. Get agreement on a revenue forecast and any tax or fee changes.

Set the priorities of government: Define the outcomes or results that matter most to citizens, along with indicators to measure progress.

Set the price of each priority: Divide the price or revenue among the priority outcomes on the basis of their relative value to citizens.

Develop a purchasing plan for each priority: Create “results teams” to act as purchasing agents for the citizens. Ask each one to decide which strategies have the most impact on their desired outcome.

Solicit offers to deliver the desired results: Have the results teams issue “requests for results” to all comers including their own government's agencies or department, other governmental jurisdictions, unions, non-profits and businesses. Invite them to propose how they would deliver the result and at what price. Then choose those proposals that will provide the best results for the money.

Negotiate performance agreements with the chosen providers. These should spell out the expected outputs and outcomes, how they will be measured, the consequences for performance, and the flexibilities granted to help the provider maximize performance.

Once these decisions have focused attention squarely on buying better results for citizens, the ten approaches described below provide the means. Through smarter sizing, spending, management, and work processes, they make it possible to produce the desired results at the set price, by increasing the value created for every dollar appropriated.

1. Strategic Reviews: Divesting to Invest.

Because time is short during budget season, smart leaders create ongoing review processes—outside the budget process—to develop new strategies and eliminate programs that are not central to their core purposes or are no longer valuable to citizens. There are many tools they can use to comb through every organization, from top to bottom, including program reviews, sunset reviews, special commissions, and subsidy reviews.

2. Consolidation: Smart Mergers.

Politicians love to merge organizations, because it looks like they're taking action to save money. But simply moving boxes on an organization chart can actually make matters worse, increasing costs while sowing confusion that hampers performance. A much more powerful alternative is to consolidate funding streams and policy authority into 'steering' organizations that can purchase results from any "rowing" organization — public or private — that can best produce them.

3. Rightsizing: The Right Work, the Right Way, with the Right Staff.

Some organizations work better when reduced in size, but others are crippled. Finding the right size does not start with layoffs. Rather it starts by asking whether organizations are doing the right work – aimed at producing the right results and – doing it in the right or most effective way. Then it is essential to make sure the organization has the right staff with the right mix of skills to maximize the value delivered. Eliminating bureaucratic layers and closing regional offices can help an organization find the right size, while human-capital planning can help it develop the right skills.

4. Buying Services Competitively.

The fastest way to save money and increase value is to force public institutions to compete. Nobody who doesn't own one thinks monopoly is good for business. Why should it be any different in the public sector? When Steve Goldsmith was elected mayor of Indianapolis during the last fiscal crisis, he decided to make public agencies bid against private firms for the right to continue delivering public services. Over the next four years he bid out more than 30 services, from garbage pickup to operation of the city's wastewater treatment system. Close to half were won or shared by public agencies and the rest by private organizations. The average amount saved the first time a service was bid competitively was *25 percent*. Over seven years, competition saved Indianapolis more than \$120 million.

5. Rewarding Performance, Not Good Intentions.

If public-sector managers don't know what they're getting for their money, chances are they aren't getting it. The solution is to set performance targets at all levels, measure performance against them, and reward those who improve. In a time of fiscal crisis, however, positive outcomes aren't enough. The new imperative is improved outcomes for less money: value for dollars.

6. Smarter Customer Service: Putting Customers in the Driver's Seat.

When public organizations let their customers choose between providers, rather than imposing services on them, they can achieve much greater customer satisfaction at less cost. With some services, the Internet even makes self-service possible, at enormous savings.

7. Don't Buy Mistrust—Eliminate It.

The sad truth of bureaucracy is that 20 percent of government spending is designed merely to control the other 80 percent. The ruling assumption is that most of us, given the opportunity, will lie, cheat, and steal. Not only does this approach undermine performance, it is incredibly expensive. The smarter move is to first win voluntary compliance by simplifying the rules, working in partnership with and educating compliers, making the process of compliance easier (without lowering the performance standards), creating incentives that reward compliance, and reserving punishment for those who willfully violate the rules.

8. Using Flexibility to Get Accountability.

From the governments of New Zealand and the United Kingdom to the U.S. Education Department's Office of Federal Student Aid (FSA), examples abound of "performance-based organizations" that have willingly accepted greater accountability in return for freedom from rules and regulations that impede performance. Charter schools use the same formula, with even more independence and accountability: They are free from many state and district rules, and most operate independently of any district, but they can be closed down if they don't perform.

9. Making Administrative Systems Allies, Not Enemies.

All organizations are creatures—or prisoners—of their internal systems. Traditional budget, accounting, personnel, procurement, and audit systems are nests of red tape that tie employees up in knots. The messages these systems send about following bureaucratic rules are much more powerful than any leadership exhortations to perform better. To get lasting improvements in performance, public leaders have to modernize and streamline these systems. The payoff is dramatic savings: Two major procurement reform bills passed by Congress, in 1994 and 1996, had already saved \$12 billion by the end of 1997.

10. Smarter Work Processes: Tools from Industry.

To do more with less, organizations must ultimately change the way they work. Some of this involves wholesale substitution of new methods and strategies. But much of it requires that existing work processes of all kinds—from street repair to eligibility determination to tax collection—be streamlined. There are many ways to do this, from Total Quality Management to Business Process Reengineering to WorkOuts.

Native Americans have many sayings, and one of the wisest is this: When you're riding a dead horse, the best strategy is to dismount.

You don't change riders.

You don't reorganize the herd.

You don't put together a blue-ribbon commission of veterinarians.

And you don't spend more money on feed.

You get off and find yourself a new horse.

Too many public leaders, from school districts to cities, counties, and states to the federal government, are still riding the dead horse of bureaucracy. For two decades they have been getting by with duct tape solutions, patching the cracks as their Industrial Era bureaucracies groan under the strain of Information Age demands. But getting by is not good enough. Getting by has crippled our public services and withered the public's confidence.

During these same two decades, pioneering leaders at all levels of government have been inventing solutions that work. They have been finding new horses. Today, as the permanent fiscal storm batters us, we no longer have the luxury of ignoring them. It is time for the rest of America's leaders to saddle up and ride.

Authors:

David Osborne is the co-author, with Ted Gaebler, of *Reinventing Government*, which made the bestseller lists in 1992 after it was endorsed by Bill Clinton on the campaign trail. He is also the author of *Laboratories of Democracy* and co-author of *Banishing Bureaucracy* and *The Reinventor's Fieldbook*. A senior partner of the Public Strategies Group, he has served as an advisor or consultant to Vice-President Al Gore, governors, mayors and city managers nationwide, and public leaders around the world. He has written for *The Atlantic*, *The New York Times Magazine*, *Harper's*, *The New Republic*, *The Washington Post*, *Mother Jones*, and many other publications. He lives in Essex, Massachusetts.

Peter Hutchinson is a founder and President of the Public Strategies Group in St. Paul, Minnesota (<http://www.psg.us>). He previously served as Vice President of the Dayton Hudson Corporation (now Target Corporation); Commissioner of Finance in Minnesota, where he began his search for common-sense budgets built around results; and Superintendent of Schools in Minneapolis, where he led a dramatic turnaround in student achievement and financial health. As a consultant he has advised governors and their administrations in Washington, Minnesota, New York, and Iowa, as well as cities, counties, and school districts throughout the United States and internationally. He lives in Minneapolis, Minnesota.

Early reviews:

"If you care about the future of American government, read this book. Under America's current economic plan, fiscal crisis is here to stay and there is only one way out: We must fundamentally reinvent the way we spend the public's money. Like Reinventing Government before it, this book shows us the way."

Former Vice President Al Gore

"As this book says, 'We are waist deep in the worst fiscal crisis since World War II.' Most politicians are so afraid of this mess that they hide behind slogans, gimmicks and blame to divert attention. Citizens want better. This book shows them how to get it."

Jesse Ventura, Former Governor of Minnesota

"When I was Mayor of New York City, Reinventing Government was required reading for my staff. This new book should be required reading for those who serve the public in cities and states across America-and in Washington. Public servants should always remember that the money they're spending is not their own. Osborne and Hutchinson teach how to wring value out of every tax dollar, with a revolutionary approach to budgeting and a relentless focus on accountability and results."

Rudolph W. Giuliani

"Houdini would love this book! Most analysts believe that American government is increasingly trapped between escalating costs and lower tax rates-a condition that promises frustration and hardship for decades to come. But now along come management guru David Osborne and his colleague Peter Hutchinson with ways out of the maze. Drawing upon the stories of innovators across the country, they offer hope that we can indeed learn to do more with less."

David Gergen, Director, Center for Public Leadership, Kennedy School of Government, Harvard University