



COST REDUCTION STRATEGIES FOR PUBLIC AGENCIES

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It's common knowledge that public spending both at the state and local level has been in retreat for several months. The sudden and precipitous decline in public revenues as a result of the state's first economic slowdown in a decade has caused public agencies across the state to tweak spending plans and tighten their belts.

Even as Alan Greenspan confirms the signs of a recovery, public agency revenues are likely to continue to fall in the near term. In contrast, the demand for public services will grow. To remain effective, local and state agencies faced with fiscal uncertainty must find a way to do more with less.

Advancements in operational management among private sector firms contain some lessons for public sector organizations. The California Debt and Investment Advisory Commission has translated some of these advancements into recommendations that might have value now.

Stay on Track – In tight fiscal times, public organizations are likely to replace long-term, strategic projects with short-term, cost-limited projects. These long-term projects, however, are often the very ones that improve the ways people work. The reason for dumping the long-term project is simple, according to most cost managers – long-term projects front-load many of their costs and cut into other operations when finances are limited. But in a declining revenue environment, organizations tend to cancel projects prematurely because they have not been started or because the project extends beyond the organization's revenue forecasting ability. Organizations should remain focused on their core activities and commit to those projects that are most likely to improve their ability to perform in the long run.

Keep Planning – Projects that cannot be pursued immediately should not be discarded all together. The need for them is likely to persist even if the funding becomes uncertain. An organization can position itself to recover more quickly if it maintains a sense of momentum through continued planning.

Scale Down – It is unrealistic to assume that an organization will not have to change course as a consequence of declining

revenues. However, instead of discarding "big-ticket" projects or those that extend beyond the organization's short-run revenue forecasts, it may be best to separate them into mini-projects. Governmental organizations are familiar with pilot projects that test the efficacy of program models. Now may be the time to incorporate this approach as a standard operating procedure.

Don't Overlook Process Improvements – The general trend among organizations seeking to increase output has been to invest in capital equipment, particularly technology. These purchases tend to affirm the organization's existing work processes and often stand in the way of the improvements that might be made by changing those processes. In the long run, simple changes affecting work processes may be more productive than adding new tools.

Target Cost-cutting – Organizations that were planning significant capital expenditures may still be able to do so if they can squeeze savings from recurring expenses. This may include temporarily postponing upgrades to existing systems and technologies. Cuts from recurring activities may be easier to implement than cuts from one-time projects that must meet work specifications and schedules.

Outsourcing – In tight times, organizations may find it cheaper to outsource than to commit limited resources to non-core activities. The cost of developing capacity needed to provide certain services or products, including training, publishing, and equipment control and maintenance, may not be cost-effective. In addition, telecommunications now make it possible to provide and receive services from remote locations.

Embrace Standards – As public organizations struggle with the concept of innovation, they may be hesitant to introduce standards in the workplace. The problem with this approach is that non-standardized processes require more to administer and maintain. Think of what would happen if everyone in the office were able to choose his or her own long distance telephone provider. Public agencies should not ignore the fact that standardization can lead to greater efficiency and lower costs in most cases.

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