

# Improving Operations: Finance officers as change agents

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Fundamental change is necessary at both the state and local levels of government. While the challenges are pretty widely understood, I want to briefly summarize my top three and identify strategies in which finance officials must play a lead role in implementing.

## The challenges

Three broad challenges face local governments today – fiscal, human resources and structural.

### **Fiscal – Three elements of the fiscal crisis are key:**

1. There is a structural imbalance between the revenues available to us and the demands for public expenditures. In the long run, this structural imbalance will impact every community.
2. Local governments must operate under greater controls and constraints on how they raise revenues. It is increasingly more difficult to secure public support for the additional revenues needed.
3. There is a disconnection between what is raised and spent and the services that are delivered. This has come about because of the lack of meaningful cost information available to citizens, their inability to make the connections between what they pay and what they get, and more important, what they stand to lose if they don't pay.

### **Human Resources – Four areas are critical:**

1. The early retirement of many baby boomers has rushed the need to recruit, orient and train many new administrative personnel. Plus, the pace of change, especially relating to technology, is forcing us to retrain again and again and to rethink how to best use our personnel.
2. Governments are being forced to adapt personnel systems to avoid narrow job descriptions and more effectively prepare employees to cover a wide variety of tasks.
3. Municipal management teams are trying to lead and motivate staff more effectively, particularly in the face of the widely held perception that the public sector is inefficient, unproductive and a drain on resources. These efforts are hindered by fiscal constraints, which have meant that compensation has not kept pace with our expectations of employees.

This article is based on the author's keynote presentation for the Michigan Government Finance Officers Association. While the article is targeted primarily at municipal finance managers, the success of these strategies depends upon the participation of local officials in every role of municipal management.

4. Governments have attempted to secure effective service performance through contracts with private or nonprofit organizations. While such arrangements are widely touted as a response to fiscal pressures, they require a very different kind of management than traditional mechanisms for hierarchical control.

### **Structural – How do we define “community”?**

The third broad challenge flows from a disconnection between current jurisdictional boundaries and both our notions of community and the nature of the problems we face. This is certainly not new, but the issues are made much more complicated by the fiscal stresses local units are experiencing and the relentless pace of mobility in our society.

In an earlier time, residents often lived, worked, shopped, went to church and played in the same community. To put it another way, the local community and the local government were one and the same. The geographic boundaries of the township or the city encompassed “community” as we knew it. And the role of government in that community was to regulate the interdependent relations of members of the community, as MSU's Ken VerBerg, points out.

But the notion of community has changed dramatically in the past half-century. Community is no longer just the village or neighborhood you live in. Community is now the region, and for many people, the region is no longer even a single county. Our lifestyles, our income and our travel patterns permit a much wider commute for all our needs.

What are the implications of this lifestyle? What mechanisms are available to mediate our interdependent relations? What does community mean under these circumstances? And, what does the notion of community control – that ideal that everybody wants to preserve – mean under those circumstances?

Most of the critical problems we face as residents in any community are no longer solely under the control

of officials from that unit of government. But, there are few if any mechanisms to encourage us to think regionally, few institutions to allow us to collectively identify and address those problems that encompass the larger community, and limited data that indicate the potential savings associated with region-wide service provision.

### The strategies

What do we do about these challenges and what is the role of local finance officials? Three interconnected strategies, modest proposals, may improve local government operations. These are not new ideas, but they will require finance managers to assume greater leadership in the broader local government management.

**Implement major changes in budget information and presentation with the goal of increasing the transparency of and access to budget data for citizens, and ultimately of improving management decisions.**

Despite all the talk these days about performance budgeting or budgeting for outcomes, there is very little evidence that allocation decisions are based on such performance information. But, budgeting is more than appropriations. It includes preparation, execution, accounting and audit and evaluation. And, I would

argue we need to focus our efforts in the latter stages of budget development. That is why in describing the strategy above I used the phrase “management” instead of budget decisions. Let me give two examples.

**1. Cost data linked to services – What it costs us to deliver these services**

One of the most important things we can do to address public perception problems is to clarify the connection between the services that we deliver and their costs. Because much of what we do is financed out of general tax dollars, the public believes that there will always be enough to finance what they demand. But we local officials know that is only true if what citizens pay in taxes meets or exceeds the cost of providing the desired services.

When budgets need to be cut, we need to be able to explain what citizens are giving up, not just in terms of staff reductions or fewer vehicles and equipment, but in terms of changes in response times or the number and frequency of inspections, and services or programs eliminated. This will help citizens understand budget decisions, but it will also help us improving management decisions because it forces us to specify what services we produce, how we deliver those services, and what it costs.

Assembling cost data for services also reveals the connections that are almost always apparent in service delivery processes. Most of what we do involves multiple people and sequential processes, often with several departments or programs providing a part of the service delivery. Examining service delivery processes and developing good cost information requires that we take these interconnections into account. This scrutiny often reveals opportunities for improvement that may lower costs.

Engaging department or program staff will require considerable work on the part of finance people, essentially helping those who deliver services to explicate the service delivery process and then identify the cost elements of that process. It may even require some adjustments to the accounting systems that we use to capture information. It will require a partnership – finance people often don't understand the service delivery process and program people know little about cost data. Finance officers will need to lead this effort.

## **2. Benchmarking performance information – How well we are doing compared to other municipalities**

Performance measurement and management, or managing for results as it is sometimes called, is the rage today; many of you have already increased the amount and quality of information presented in budget

documents and begun to develop service efforts and accomplishments (SEA) data to include in financial reports.

The question, however, is not whether such performance or SEA information exists, or whether it is made available in budgets and financial reports, but whether it is being used in the management decision process.

We need to use performance information to drive improvements in service delivery processes, assess the impact on outcomes and costs of such changes, and identify comparable communities and compare our efforts on these measures with what others are doing. Pulling together the information that is available, capturing it more regularly, analyzing it more carefully, and connecting it to decision-making is what is critical. (*See related article on the MML Fiscal Database on pages 10-11.*)

That is where finance officials come in; you have a track record with information systems, albeit the systems that you work with are financial in nature. You need to help create parallel and linked performance information systems that facilitate better decisions about service delivery. You need to assist agency staff in developing measures and measurement systems that capture what an agency does as well as the impact of those services on citizens. And, then you need to connect that information with good cost data so agencies can assess the impact of changes in service delivery on outcomes as well as costs.

**Pursue aggressively the use of market forces for linking fees to service provision, but more important, to improve our management processes.**

The second strategy is linked to the first. A precondition of setting fees for services is the ability to specifically identify units of service and to determine the costs of actually producing those services. Most communities have recently updated fee schedules and increased the proportion of general fund revenue from such fees and charges. We need to do even more of this – more of the things we do as local governments could be provided on a fee basis, and improvements in technology make monitoring or metering service use more cost effective.

But beyond this, the market can also make us more efficient – this is about improving the management of our local government operations. Why do markets improve efficiency? Why does the market help reduce costs? For many people the answer to those questions lies in the contracting process. We ask the private sector to bid on the services we deliver in the expectation that they can do it cheaper than we can.

The real answer, however, rests in the fact that competitive pressures improve performance. That is, the desire to increase efficiency with the expectation that saving money in service delivery translates into profit. But we can do that too, if we gather good information, focus on service delivery improvement, and use both cost and performance information as a basis for management decisions.

It just requires a different way of thinking about and managing public service delivery. It will require better information on costs, a greater willingness on the part of public employees to be flexible, and a much greater reliance on performance information for management decisions.

**Stimulate and facilitate analysis and discussion of joint service delivery efforts.**

This third strategy involves generating good information to drive consideration and discussion of joint service options, and most of that information is financial in nature. Cost data are often not the most important ingredient in such decision making processes. Community identity and local control are still the dominant themes in understanding the decisions, or more precisely, the absence of decisions, to cooperate or consolidate services.

But, without good cost information we miss the chance to explore the possibilities that lie in cooperation and consolidation. For example, there is ample evidence that many of our local units are too small to take advantage of the lower costs associated with scale economies. Therein lies one of the ironies in the public demand for greater efficiency in local government operations. We want better services at lower costs, but at the same time we want our small local governments and

the “control” that purportedly goes with it. One can argue that this is a classic clash of values, and usually, small wins over efficiency.

However, no one is explaining this trade-off to citizens. Finance analysts are not examining the costs of our small units and the potential for efficiency in cooperation, joint service agreements and even consolidation of services or units. This may be good politics, but it is not good financial stewardship. Finance officers need to be much more assertive in providing analysis of the potential cost savings associated with joint operations or even cooperative or consolidated services.

Yes, costs may go up in the short run as we pursue joint efforts. Understanding why and how this is the case is not always clear to citizens, but I expect that most of you can do the analysis. It is the long-term reductions in costs or savings to be gained through joint efforts that need to be identified and reported.

This requires good financial information – explaining cost curves and economies of scale – since most of the evidence suggests the value of joint efforts, at least up to a certain size. Providing this information in an easily understandable fashion will be critical as more and more communities consider these options.

## The gauntlet

Finance officers have a real responsibility, and possibly a real opportunity, to serve as municipal change agents. These modest proposals don't represent wholesale system change. Rather, they involve anticipating problems, thinking differently about our roles, providing better information, ensuring that people understand the issues, and ultimately securing support for the changes that will be necessary to address the critical challenges municipalities face.

Finance officials must provide critical leadership in their local communities, going beyond traditional roles. They must challenge managers, elected officials and residents to think differently.

Finance officers must embrace broader responsibility for service improvement efforts, using their understanding of finances, their analytical skills and their personal leadership to enable others in local administration to secure service improvements. And, their leadership must extend to the community. Finance officers must participate as educators to help citizens understand the challenges and the potential solutions. ♦

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