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CFO Agenda

Getting to the bottom line

Controlling spending and reducing deficits in the public sector

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CFO *Agenda*

As Canada's federal and provincial governments strive to control spending and reduce budget deficits, the role of public sector CFOs[1] has changed. On top of managing day-to-day operational pressures, they're now helping manage their organization's performance and delivering on policy-driven targets. At the same time, they're under pressure to maintain or even improve service levels with fewer resources.

The role of public sector CFOs has come a long way in recent years and their importance in enterprise performance is recognized, much like the private sector. But there are challenges facing public sector CFOs in carrying out their expanded roles.

A short-term focus is driving many organizations to manage from fiscal year to fiscal year, complicating efforts to plan for the long term. Meaningful metrics can be hard to come by: progress is often gauged using macro-level measurements (e.g. employment or GDP growth), making it difficult to pinpoint the specific impact of a given program. Efforts by public sector CFOs to introduce changes to long-standing business attitudes and practices often run headlong into entrenched resistance, with some employees believing a results-focused mindset is unsuited to public sector work.

But strategic cost management is probably the most significant challenge public sector CFOs face in their quest to find more efficient ways to deliver services. It can be difficult for CFOs to get a handle on their organization's costs, because they simply don't have the quality business data about the true cost to serve that they need to make informed analysis and decisions.

In this edition of CFO Agenda, we'll focus on tools, techniques and learnings from the private sector that can help public sector CFOs gain greater insight into their organization's cost structure, and enable them to deliver the recommendations and direction they want to provide.

1. We use the term "CFO" to refer to those public-sector executives that hold CFO-level roles and responsibilities, no matter their official title.

Hindered from the start?

At departments, ministries and agencies across the federal and provincial levels, CFOs and other finance leaders are being challenged to do more with less. Achieving that sounds relatively straightforward. First, determine which programs deliver the best results and should be maintained—and which should be cut. Once that's done, steps can be taken to improve the remaining programs—identifying the most efficient, effective cost structure for delivering the expected level of service.

But it's more difficult than it sounds. A variety of structural and cultural factors mean that public sector CFOs can't easily access the information they need to assess the true cost of programs and services:

- **Budget and accounting treatments.** Governments commonly allocate expenditures to discrete buckets that don't always align well with how funds are actually spent. Funds in one bucket are often used to support expenditures elsewhere.
- **No fully-loaded costing.** There's often focus on direct costs—the initial cost of procurement or establishing a program. All too often, program lifecycle costs (e.g. service contracts) are overlooked, and result in significant cost overruns.
- **Near-term thinking.** Governments and public sector organizations commonly plan funding on a fiscal year by fiscal year basis, but many programs may require more long-term funding for effective planning.
- **A traditional view of costs.** Looking at costs in traditional terms— operating and maintenance (salaries, rents and expenses) and capital (acquisitions, major projects)—still tends to linger on in the public sector. This approach is useful for determining how funds are spent, but it provides little insight into how funds are consumed over the course of delivering a product or service.
- **Lack of high quality performance metrics.** In recent years, governments have made important progress in setting target results and outcomes for programs. But the metrics that are available often focus on transactional aspects of program delivery (such as number of applications processed) rather than those target outcomes. As well, public sector programs are often evaluated in macro terms, such as jobs created or regional economic growth, which are difficult to link directly to programs themselves. This complicates efforts to determine the cost effectiveness of any given program.

Addressing the challenge

To overcome these challenges and deliver the value they want to, public sector CFOs can champion and drive changes in how they—and their departments, ministries and agencies—think about and manage their business.

At a macro level, managing program costs requires CFOs and the political decision-makers they support to manage the programs themselves. Program costs can be evaluated against results. Programs that fail to meet the objectives set down by policy, or whose costs outweigh their benefits, can be closed down. CFOs often cannot make those decisions alone, but they can provide the data and framework to enable the decision-makers in doing so.

To provide this input—and to then improve the cost structure of the programs that decision makers elect to continue—CFOs need to have better information about the program delivery costs and metrics that matter. Fortunately, CFOs are ideally positioned to drive the change that's needed to get the information they need.

- First, CFOs can drive a move to activity-based costing. It's essential to understand how much it costs from a process perspective to deliver program services. What does it cost an agency to process a grant application or respond to a request? CFOs can identify what drives the organization's cost structure and identify opportunities for improvement when they have this information.
- Second, CFOs can help their organizations obtain and take into account the full lifecycle costs of a program—not only the costs of initial implementation. This will enable them to advise on the long-term sustainability of the program and help organizations and political decision makers avoid potentially embarrassing cost overruns in years to come.
- Finally, CFOs can work with program managers to identify metrics that deliver meaningful information related to policy objectives. Measure what matters, not just what can be tallied and reported. A government call centre may be better served by measuring the number of repeat calls instead of average call length, as that may better indicate the effectiveness of the centre's efforts.

CFOs need to have better information about the program delivery costs and metrics that matter.

Are your information systems up to par?

CFOs usually have a good understanding of what to measure, but obtaining the necessary data can be a challenge. Some government organizations find themselves working with outdated systems that simply can't provide the functionality needed today. In other cases, organizations have failed to realize the full benefits of their significant investments in enterprise resource planning systems. A silo mentality still persists in some areas: Staff don't share information with the appropriate departments and use spreadsheets and other offline tools to track, measure and report on progress.

Before launching a campaign to invest in upgrading information systems—or to better use the ones already in place—CFOs can start by considering their information needs. They can determine what information they require to effectively manage the organization's business and costs. It's important that they're wary of pursuing a level of detail that's more granular than they require because it will add unnecessary complexity and cost to any solution.

Once the information needs are identified, CFOs can determine whether the information is available. If it isn't, then CFOs can determine what's preventing them from getting the information they need, and then develop a plan to address these barriers. New lines of communication or new investments in technology may be required.

Whatever the solutions may be, the CFO will likely need to demonstrate how the change will enable them to more effectively and affordably meet their mandate. In some cases, CFOs may find it more cost effective to outsource this work to a third party rather than make significant internal investments.

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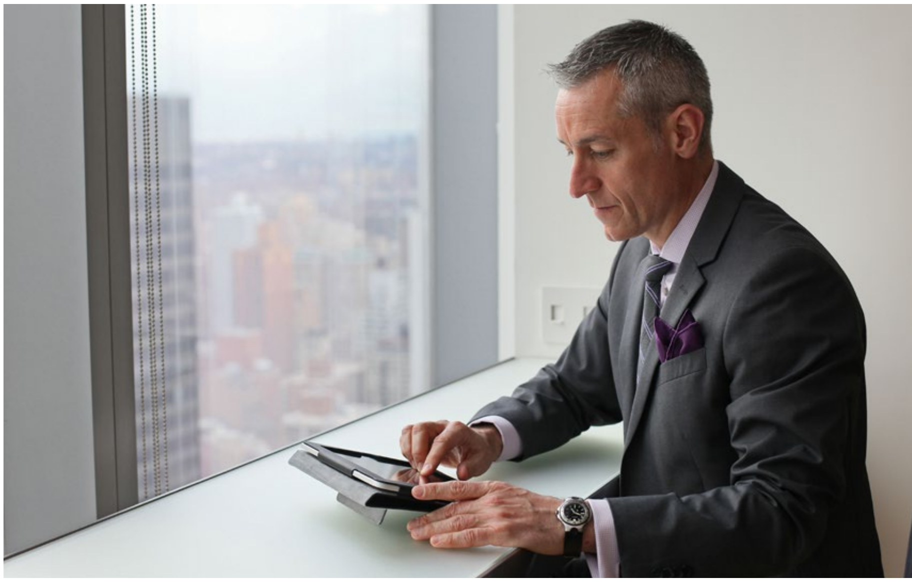

Overcoming resistance and managing change

As public sector CFOs drive forward with necessary changes, they'll likely run into resistance. People can be suspicious of change, especially when it promises to disrupt long-standing, comfortable routines. As well, some individuals in the public sector resist the idea of importing tools and approaches from the private sector, perhaps feeling government organizations should not be run like businesses. CFOs will need to anticipate and address this resistance to change in order to sell these new approaches to the organization.

We recommend CFOs take a phased approach to implementing new ways of looking at and managing the business of their organization. They can look for opportunities to pilot the new approach—perhaps on a small program—and use the short-term successes to demonstrate effectiveness and gain momentum for further expansion.

Keeping the big picture front and centre as they work to persuade others to adopt new approaches is also important. Establishing meaningful metrics, understanding the full lifecycle costs of programs and embracing activity-based costing methods will allow CFOs and their teams to put clear, quantified data in front of decision makers. This will enable those decision makers to make more informed choices on how to reduce costs while maintaining service levels and meeting policy objectives.

Uphill but not impossible

Public sector CFOs face challenges as they look to cut costs and improve efficiency without sacrificing service levels. But these challenges are not insurmountable. Adopting private-sector leading practices such as activity-based costing may give public sector CFOs better insight into what drives their cost structure, and help them make recommendations to improve it.

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