

How to 'do more with less'  
in the public sector?

Governments prepare to take  
on global challenges



# Public Sector Challenge

**W**e are introducing this special section to look at the ways government will be affected and the various opportunities it has to respond to the numerous social, economic and technological megatrends of the coming 20 years. This unique insert is based on a report entitled Future State 2030, a summary report designed to stimulate thinking about the future and its effect on the public sector. Moreover, in addition to all the changes that governments

will be faced with, they will be challenged to do more with less. Against this background, we also look at the concept of cost management.

Our theme for this and future editions of Public Sector Challenge is the demands and the scope for actions that governments will have to deal with.

We are excited about the many benefits that this publication provides and encourage you to contact us to discuss the global megatrends that will unfold.



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## Governments prepare to take on global challenges

The changing economic, social and environmental landscape provides new challenges and opportunities for governments. To better understand these and provide insights to shape the policy and regulatory tools in response, KPMG, in partnership with the MOWAT Centre at the University of Toronto, conducted a thorough analysis to identify the global megatrends, salient to the four core responsibilities of governments: economic prosperity, security, social cohesion and environmental sustainability.

### What governments need to change?

In assessing the impacts of the nine megatrends on the future state of government, we present possible responses using the core tools available – policy, regulation and programs – as well as the strategies, structures and skills that future governments will need to have in place.

#### Policy, including the expansion of:

- national governments' engagement in international, regional and jurisdictional forums to address interconnected issues
- the use of high-quality data assisted by strong data analytics to formulate policy

#### Regulation, including shifts that seek to:

- encourage behavioral change among citizens where policy and program changes have been ineffective
- enforce market practices to align with government policy priorities and choices

#### Programs, including shifts that seek to:

- minimize costs to governments by reducing unit costs/prices, reducing unit demand and/or capping total demand for government services
- take a more holistic long-term view of infrastructure systems, encompassing both hard (transport, water electricity etc.) and soft infrastructure (finance system, health care, education).

### How governments need to change?

Strategy changes include greater focus on, and use of:

- long-term planning and scenario exercises including long-term economic forecasts and critical asset management assessments
- behavioral insights to encourage people to act in ways that will reduce pressures on social support systems
- metrics to help ensure that funds are

- allocated to cost-effective programs
- technology adoption that is flexible, affordable and timely.

**Structural changes include shifts towards becoming more:**

- internationally integrated through active engagement with international partners and cooperation with international institutions
- locally empowered with greater funds and authority given to cities to meet their responsibilities
- networked through meaningful collaboration with citizens, other levels of government, neighboring countries, the private and non-profit sectors to sustain key areas of government service delivery
- flexible and adaptive in planning to facilitate greater risk taking and more timely responses to unanticipated situations.

**Skills needed include greater capabilities and capacity in:**

- factoring global trends and their impacts into decision-making processes
- financial sophistication with a deep knowledge of international capital markets
- systems thinking to understand the potential benefits and risks of technology developments
- effective stakeholder engagement, including the use of new communication channels such as social media
- risk assessment and change management to address complex risk issues.

**The good news**

No government can succeed in its core functions without thoughtfully planning for, and responding to, these trends. However, it is important to note that in certain megatrend areas it is not just a question of the risks posed to governments but also the potential for increased opportunities.

In fact, we believe that all governments will benefit from the explosion in available information and data around the world.

This growth in knowledge capital, coupled with advances in technology that enable its rapid dissemination, has the potential to create unforeseeable changes in areas such as medicine, engineering, transportation and agriculture. What’s more, these changes are likely to occur at a far more rapid pace than changes in the past several decades. The public, therefore, will need to change its processes to be prepared to take advantage of these opportunities and not focus solely on managing risk.

**THE MEGATRENDS**

- Demographics
- Rise of the individual
- Enabling technology
- Economic interconnectedness
- Public debt
- Economic power shift
- Climate change
- Resource stress
- Urbanization



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## How to ‘do more with less’ in the public sector?

**For all organizations and various levels of government in the public sector, these are not easy times. The economy is (still) struggling, the financial sector is under pressure and the accumulated government reserves are being hit hard. At the same time, expectations about performance and quality of organizations in the public domain are increasing all the time.**

**G**overnment administration is expected to operate in a more efficient, customer-friendly and problem-solving manner. Both society and the politicians are less and less satisfied and demand transparent and efficient organizations that make efficient use of public money.

The current economic situation – with the attendant cost-cutting – is forcing the government to do more and better with less resources. Achieving efficiency and effectiveness savings will be one of the crucial tasks in the next few years.

There are several options when looking for efficiencies: creation or optimization of (inter-) local partnerships, “process or organization re-engineering”, in which each process is evaluated to see if it is organized in an effective, efficient and lean manner, not forgetting to map out the (operating) costs and potential opportunities to squeeze costs within the organization.

It is indeed necessary for public authorities to gain a clear picture of their (operating) costs, evaluate them and limit them where possible. But it is not enough just to cut costs, because

that may just generate far higher extra costs elsewhere. Costs have to be managed and monitored in a strategic, carefully-considered way. It is possible to chart the cost of providing a service or a process via a step-by-step plan. The paramount requirement is to understand the costs of the various budget items as well as to link them to the policy objectives of the organisation in question. Until recently, it was only types of cost that were being considered (personnel, infrastructure, etc.). Nowadays, the question has to be asked whether an action is really necessary, and if so, whether it is being carried out in the most efficient way. For example, it may be that approval is required three times for the payment of an invoice, although the second and third approvals only serve as confirmation, and just slow down the process unnecessarily. An alternative could be, for example, granting approval unless rejected, or automatic approval within certain limits. Benchmarking of certain parameters, performing workload measurement and detailed process analyses are important tools in the road towards sustainable cost awareness.

This way, it is possible to evaluate (critically) the pattern of these costs and determine how much added value the provision of a specific service gives local people in relation to the policy objective. This cost screening and business process re-engineering (BPR) creates the possibility of merging certain services/activities (Shared Service Centre) or outsourcing them. Finally, a strategic redesign of certain functions in the organization (Target Operating Model) can take place. ■

