

Advisory Alert: Turnaround “apps” for the public sector - the Strategy platform

Introduction

A successful restructuring process calls for a clear action plan. Restructuring activities must be objective and analytical – in other words, apolitical. Back in June 2015, we published a [piece](#) that addressed the need for pragmatic and simple solutions to tackle increasingly complex problems in Puerto Rico’s public sector. These solutions come in the form of turnaround “apps” in four platforms for executing turnarounds in the public sector, and includes:

- Strategy
- Operations
- Finance
- Leadership

In the next series of articles, we aim to further explore the platforms of these turnaround “apps” to offer the government constructive suggestions on addressing important issues and resolving complex economic and service issues in the current difficult environment.

The strategy platform

Every private enterprise has a mission; government, too, has a mission, which is often defined in local charters and constitutions. Current leadership interprets the mission, and public policy embodies the prioritization and execution. Public policy is the strategy of government, but government units need to adopt corporate-like strategic planning in order to allocate scarce resources and manage constituents’ expectations most effectively.

Strategy app #1:

Determining core services

Defining government’s core services is at the heart of any governmental restructuring effort. For example, all governments share a common concern for public safety that is reflected in the strength of their police and fire departments. One or several school districts often claim a major portion of the local budget but the quality of the educational program will vary with the allocation of budget dollars, demographic mix of the students and the capability of the teachers. Infrastructure in the form of roads, bridges and buildings, along with related maintenance, is generally in the exclusive purview of the government unit. The degree to which other services such as health care, sanitation, environmental management and business regulation should be prioritized is usually subject to debate and prevailing political sentiment.

But, must government provide services that are often available in a community from private for-profit or nongovernmental not-for-profit organizations? In general, government units need to engage in a strategic assessment that includes a decision framework for prioritizing its activities.

The first question to be answered is this: What should be included in the government’s service offering?

The question can be answered after determining if the service is mandated by either law or public policy. If yes, the follow-



Contact us

For assistance in this matter, please contact us via ojel.rodriguez@pr.gt.com



Adding true value means exceeding our clients’ expectations, anticipating their needs and being proactive and innovative in the accounting profession.

Through the **Kevane Grant Thornton business and tax application for mobile devices** you will have access to our Alerts, Tax News and other related matters, plus a customized tax calendar for individuals, businesses and other entities, thus providing an excellent tool to manage filing and payment due dates with government agencies in Puerto Rico.

Download for free the application. Available for iPhone, Motorola and all tablets.



Follow us on Facebook and LinkedIn.

April 15, 2016

DISCLAIMER: This update and its content do not constitute advice. Clients should not act solely on the basis of the material contained in this publication. It is intended for information purposes only and should not be regarded as specific advice. In addition, advice from proper consultant should be obtained prior to taking action on any issue dealt with this update.

© 2016 Kevane Grant Thornton LLP All rights reserved. Kevane Grant Thornton LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another’s acts or omissions. Please visit www.kevane.com for further details.

up question is: What level or type of service is required? A government must protect the safety of the public; what about providing security for a local music festival? Is it necessary for the police to be called every time the fire department is summoned to a private residence? The answer to the first question might seem simple, but the answer to the follow-up question presents some challenges.

Governments pride themselves on their contributions to the quality of their residents' lives. The more parks, the more summer programs, the cleaner the streets, some would say, the better. As prioritization becomes less clear, the debate can turn political over public policy concerning "must-have" versus "want-to-have" programs.

Strategy app #2:

Core competencies and priorities

Having identified the strategic activities of the government unit, the next question that needs to be answered is: What are the government's core competencies? In other words, what activities does this government unit perform that are unique to the community, cannot be easily imitated or deliver value that is best in class?

In the private sector, turnaround specialists evaluate business units based on profitability and return on investments. The equivalent in the public sector is performance metrics that evaluate how effectively the program serves its purpose. In the category of "must-have" programs such as police, fire protection and schools, the departments' effectiveness can be evaluated in terms of crime rates, protection against property damage, student performance and any number of other logical, empirical metrics.

How do these departments compare with those found in other communities? Is there a

private sector alternative that can serve as a benchmark? There is an order to the analysis and economic logic in addressing the inefficiencies of the "must-have" programs that should be part of a government's core competency before addressing the "want-to-have" programs.

"Want-to-have" programs can vary from community to community and should not be assumed to be luxurious extravagances. It is often in these programs that public sector providers operate as best in class. For example, consider a city-sponsored health clinic: What is the annual cost of delivering the program? How many patients has it seen? How many jobs does it provide in the community? Has the general health index increased? Has absenteeism at work or in the schools declined as a result? What are the opportunity costs of not providing the program? What are the health care alternatives within the same and neighboring communities for the citizens who use the clinic? The evaluation of government's competency in managing this and any other program relies on benchmarking its performance against private sector alternatives and/or comparable programs in other cities.

Services that are nonessential but enriching for the community can provide an opportunity for a government to perform like a business. This is where "profit" can enter the public sector picture. Government entities should not be precluded from earning profits on their activities and creating benefits for their constituencies. For example, if the recreation department can generate enough revenue to cover its expenses from user fees, it may be able to offer summer programs to disadvantaged youth at little or no cost.

As with any strong business, the "must-have" programs should be analyzed and restructured in a way that maximizes their efficacy. The

DISCLAIMER: This update and its content do not constitute advice. Clients should not act solely on the basis of the material contained in this publication. It is intended for information purposes only and should not be regarded as specific advice. In addition, advice from proper consultant should be obtained prior to taking action on any issue dealt with this update.

© 2016 Kevane Grant Thornton LLP All rights reserved.

Kevane Grant Thornton is a member firm of Grant Thornton International Ltd (Grant Thornton International). Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered by the member firms independently.

“want-to-have” programs often generate political conflict that can lead to systemic breakdown and inefficiency. Experts recognize that the trouble with evaluating disparate “want-to-have” programs is that there are rarely common criteria around which to measure performance or value. The metrics for a health care clinic are not comparable to those used in evaluating the parks and recreation department that manages parade permits. The number of citizens served may be the most readily identified metric. This “for the greater good” approach, however, can easily overrun the needs of underserved populations. And in the world of performance metrics, the measure of our humanity may be the ability to afford social programs that help just a few.

The tragedy is when government’s inefficiency precludes the ability to deliver an important, albeit uneconomic, humanitarian program. Nevertheless, to be successful, an appreciation of the political and humanitarian landscape is required.

In our next article we will talk about turnaround “apps” for governments in the **Operations platform**.



Call us to make an appointment with one of our experienced advisors. We will be glad to assist you.

DISCLAIMER: This update and its content do not constitute advice. Clients should not act solely on the basis of the material contained in this publication. It is intended for information purposes only and should not be regarded as specific advice. In addition, advice from proper consultant should be obtained prior to taking action on any issue dealt with this update.

© 2016 Kevane Grant Thornton LLP All rights reserved.
Kevane Grant Thornton is a member firm of Grant Thornton International Ltd (Grant Thornton International). Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered by the member firms independently.