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Managing cutbacks

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Downsizing and cutbacks

- Cutback budgeting examines how governments adopt strategies to reduce spending in a retrenchment environment—such as economic recessions, revenue shocks, external crises, reductions in aid, or the imposition of tax limits.
- Cutback management research focuses on:
  - What cutback strategies are available?
  - Why governments choose certain strategies (drivers and constraints)?
  - Which strategies are most effective under different circumstances (effects)?

What would you do during cutbacks

- Cutback management, like any other form of management, should be guided by clear strategic goals.
- Cutbacks are not just about “getting through” the year—align actions with the goals of the cutback and the organization’s priorities. Maintain a long-term, sustainability focus.
- Diagnose the fiscal stress:
  - Temporary vs. structural,
  - Short-term vs. long-term, and
  - Beginning or the end of the downturn.
- Assess the environment, including key supporters and opponents of cutbacks.
- Select cutback strategies that fit the situation.

Cutback strategies

- Broadly speaking, cutback strategies fall under these categories
- Revenue raising: increase taxes/fees, expand the tax base, improve collections
- Expenditure cutting: reduce or eliminate programs/services, hiring freezes, across-the-board cuts
- Efficiency improving: redesign processes, reorganization, consolidate services, resource sharing, use technology/contracting to lower unit costs

Cutback strategies

- Reducing spending
  - Across-the-board cuts: apply the same % reduction to all departments (fast, but not strategic).
- Targeted cuts: reduce or eliminate specific programs/services based on priorities.
  - Close or consolidate facilities
  - Reduce service hours, staffing levels, or service coverage
- Postponing expenditures: delay costs to a later period (short-term relief, potential long-term costs).
  - Defer capital projects and routine maintenance
  - Delay payments to contractors or vendors (high risk)
  - Slow hiring/replacements

Cut personnel expenses

- Because personnel costs are the largest spending category for many governments, they are often a primary target during cutbacks.
- Some personnel reductions aim to maintain service levels (e.g., reducing staff hours while service demand remains unchanged).
- Other personnel cuts reduce service capacity, especially layoffs.
- Decisions can include:
  - Hiring freeze: leave vacancies unfilled; rely on attrition
  - Salary freeze: pause raises/step increases temporarily
  - Reduce travel/training: limit discretionary spending and conferences
  - Furloughs: temporary unpaid leave or reduced workdays
  - Benefit changes: adjust employer contributions (health, retirement), where allowed
  - Layoffs: permanent workforce reductions (largest impact, highest disruption)

Revenue raising strategies

- Raising revenues can help close a budget gap. If governments can generate new or external revenues, they may be able to avoid service cuts.
- Raise taxes
  - Increase taxes paid by nonresidents (e.g., renters or commuters), where permitted
  - Strengthen tax enforcement and auditing to improve collections
- External funding: grants and federal/state aid
- Fees and charges: new or higher user fees, permits, and service fees
- Leasing or selling public assets: lease public property or sell underutilized facilities
- Borrowing / refinancing: short-term borrowing provides cash flow but does not increase revenue; it is appropriate mainly for temporary fiscal stress when revenues are expected to rebound.

Efficiency improving strategies

- Improving efficiency
  - Management improvements: streamline processes, reduce overtime, improve scheduling, strengthen procurement, adopt technology/automation, reduce errors and rework
  - Outsourcing / contracting: competitively bid services, use performance-based contracts, right-size in-house staffing, contract out specialized work (with monitoring to maintain quality)
  - Consolidation / reorganization: merge departments, share services across jurisdictions (IT, HR, dispatch), centralize purchasing, standardize procedures to reduce duplication
- Accounting maneuvers (short-term fixes; should avoid; may not solve the underlying gap)
  - Change assumptions: revise interest-rate or inflation assumptions, adjust depreciation schedules, revise revenue forecasts
  - Transfers among funds: shift resources between funds, use reserves/fund balance, one-time asset sales, reclassify expenditures or timing to meet budget targets