

H4 Consulting Brief

Bumps in the Road

Publicly funded organisations often think about efficiency as the maximum productivity that can be achieved with finite resources by minimising wasted effort or expense. When this worthy goal is applied over too short a period, systems may be optimised for smooth conditions in the short term, like a tiny hatchback for well-maintained local roads, but be woefully inadequate for inevitable bumps in the road, when we might need an all-terrain bus.

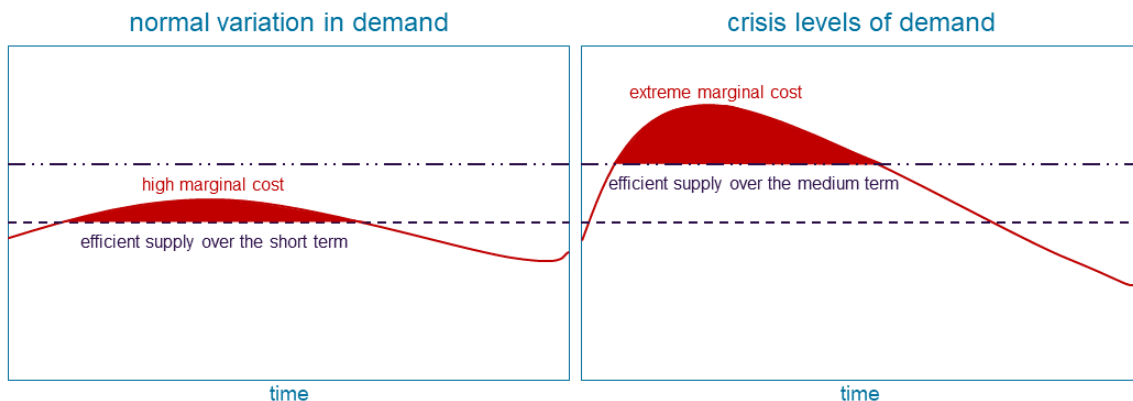
Societies expect that publicly funded organisations will strive to maximise efficiency so that citizens get the best possible value from the investment of public funds. Many people in publicly funded organisations feel the pressure of infinite public wants compared with finite resources and want to do as much as possible with the resources available to them.

In the context of short term political and budget cycles, the goal of maximising efficiency is often interpreted as maximising output and minimising 'waste' in the short term, rather than maximising value for money in the medium to long term.

In business as usual conditions, it can be difficult to find the funds, and the will, to plan for the uncertain consequences of a potential future crisis.

Unfortunately, conditions are not always business as usual. When a crisis does strike, very lean systems rarely have the capacity to respond quickly and at scale. The marginal cost of additional output from a system geared to maximise utilisation can be extremely high, sometimes so high that it eclipses 'efficiencies' from happier times. Shortages of some key resources, like skilled workers, special equipment, and infrastructure, are difficult to address quickly in a crisis, which can lead to system failures or rationing.

One of the core functions of publicly funded organisations is to smooth out the ride for citizens, softening bumps from economic and social shocks. If the publicly funded organisations we rely on in a crisis cannot handle the bumps, then any benefits of short term efficiency can be wiped out by exorbitant surge costs over the medium to long term.



Efficiency over the medium term means understanding and planning for medium term risks. With a longer horizon, variability is greater. Efficient systems that are optimised for the medium term are, therefore, likely to include some redundancy in quiet times, just like a contingency reserve allocated for unexpected costs in a major capital project. For high-risk contexts, like some military and aeronautical settings, more redundancy will be appropriate. For other contexts, a leaner model may still be fit for purpose.

Flexible resources that can be used in many ways can offer surge capacity by redeploying resources from less urgent work, rather than idle redundancy. Any higher unit costs for more flexible resources may still be efficient when considered over the medium term.

The constant drive for efficiency makes it easy to think that momentary unused capacity is, by definition, inefficient. Spare capacity in hospitals, ambulances, welfare services, military, and a range of other public services, may be efficient allocation of resources if that capacity is available at a reasonable price when it is needed most. Slightly higher cost, but more flexible, resources may still be canny procurement if we can redeploy them quickly in a crisis.

Not all underutilised infrastructure is wasted, and investing in prudent reserves should not be confused with wasting public funds on inefficient activity. By lifting our gaze to the medium term view, we can efficiently manage demand and still handle a few inevitable bumps in the road.

To find out more about how you can use this approach in your organisation, contact us: info@h4consulting.com.au
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