

The Deficit Reduction Action Plan: Politics Versus Planning and Transparency in Government Finance

The Case

The Federal Conservative Party was first elected in 2006 on promises of, among other things, introducing tax cuts — including the reduction of the GST by two percentage points — and increasing the efficiency and cost-effectiveness of government services. In the 2007 Budget, strategic reviews of all government ministries were announced. The reviews would inspect the expenses of every government department over a four year cycle to try to find efficiencies, unnecessary programming, and, ultimately, savings.

However, later in that year, the global economic crisis hit and drastically changed the landscape. Suddenly a budget which had been in surplus and allowed for tax cuts was facing a massive structural deficit going forward. To address the deficit, and to pay for the infrastructure investments which formed the core of their economic stimulus plan, the government would deepen their attempts to cut public service spending. Returning the government to balanced budgets became a key plank of the government's political messaging.

Budget 2011 announced that, while the government had already created \$2.8 billion dollars in annual savings as a result of the first cycle of program reviews, further measures were necessary. The Budget reiterated a recently established budgetary freeze of all government departments, but also called for a one-time Strategic and Operating Review. A part of the broader Deficit Reduction Action Plan (DRAP), the review would call on all departments to create budgets where they would cut 5% and 10% of their existing spending. Government would then select which budgets would go forward. The ultimate goal was to find \$4 billion in annual savings from the public service budget.

Both the Budget and the government's subsequent political communications argued that all the savings could be found without affecting services — particularly frontline services — for Canadians. The budget reductions would be accomplished by finding efficiencies, improving business processes, reducing backroom work, and eliminating non-essential work or programs that were creating costs without delivering benefits. They also framed the measures as modest compared to both the austerity measures of other countries and Canada's own budget cutting/deficit reduction measures of the 90s. Budget 2012 further increased the savings goal to \$5.2 billion.

By the time the government delivered their first post-recession balanced budget in 2015, the program had surpassed its target, both in terms of budgetary savings and number of FTEs eliminated. Independent sources pegged the government's annual savings from 2010 at \$13.7 billion dollars per year. The government had estimated in 2012 that they would cut 19,200 FTEs by the end of the DRAP. However, as of 2014 they had cut 26,000 with another 8,900 planned to be phased out by 2017.

Going into the 2015 election, the government argued that the DRAP had been successful, allowing the government to return to a balanced budget without sacrificing services. They argued that 70% of the savings had been delivered by finding efficiencies, while the rest was delivered by eliminating unnecessary programs, services, and initiatives.

Criticism of the Plan

The government's perspective has been heavily questioned and criticized. These criticisms have principally fallen into three broad categories: 1) the broad fiscal necessity of rapid and significant public service cuts, 2) the structure and administration of the public service cuts in the DRAP, and 3) the government's failure to accurately measure and/or disclose service impacts.

Some critics have questioned the necessity of cutting the deficit so quickly. It was argued that a more gradual return to balance budgets would not have significantly increased Canada's debt-to-GDP ratio and avoided disruption to public services. Further, others have questioned the prudence of cutting the public service during an economic downturn. A slower and more measured approach may have avoided the adverse economic affects of quickly shedding tens of thousands of jobs during a recession.

If, however, the government's goal of deficit reduction through public service cuts is taken at face value, there are still criticisms of how the program was implemented. Rather than implementing a centrally planned and administered program that reviewed all government spending and made strategic, comprehensive, and cumulative decisions about where to cut, the government delegated responsibility for cuts to individual departments. It is argued that this siloed approach had at least three major consequences. First, there were no central metrics or procedures by which the government determined the best places to cut. By placing a blanket reduction target on the whole civil service, the government missed chances to cut deeper in places where it was possible or less in places where it was problematic. Second, there was no impact mitigation strategy for the rate, depth, or location of the staff or resource cuts. Third, there was no agreement on metrics and procedures by which individual departments would measure or disclose any service impacts of their budget cuts.

Many negatively contrasted the government's deficit reduction approach with other such plans. Many European countries pursued integrated and centrally planned austerity measures after the 2008 recession. Similarly the Liberal government of the 90s made deep cuts to public spending, but did so in a coordinated, transparent fashion after a centrally planned and administered system review process. Many of the decisions in these cases were firmly criticized, but the decision making and service impacts were considerably more transparent.

Third, many criticized the government's plan for refusing to measure or intentionally obfuscating the service impacts of the budget cuts. As noted above, the Conservatives were insistent that savings were found almost entirely through efficiency gains, and that the impact on frontline services would be non-existent. However, much evidence arose to counter this claim.

The 70% of accrued savings which the government attributed to efficiency far outstrips private sector benchmarks. This raises suspicion as to how government can achieve such extraordinary efficiency gains. No official explanation was ever advanced.

Further, contrary to government's insistence that services were not impacted by the cuts, a number of organizations managed to quantify service impacts in a number of ministries. This is despite the government's lack of official measurement and disclosure. Service impacts that were independently verified include:

- Employment and Social Development Canada: the number of contact centres processing employment insurance claims dropped from 120 to 22. This led to a 40 year low in the

number of unemployed people who successfully claimed EI, and led to large increases in call wait times, dropped calls, and abandoned calls.

- Veterans Affairs: nine purpose built service centres were closed, with people being redirected to less specialized, and sometimes less geographically convenient Service Canada locations.
- Canadian Coast Guard: shut down ten communication centres and cut 300 FTEs, lowering reaction times.
- Environment Canada: a significant number of environmental assessment programs were eliminated or scaled back significantly after a 36% budget cut and 21% workforce cut.
- Canada Border Services Agency: 1,100 FTE cuts led to a drop in the number of fake passports detected and the number of flights where full passenger information was vetted.
- Fisheries and Oceans: a reduction in staff numbers meant fewer scientific assessments.
- Aboriginal Affairs: staff working on land claims and treaty negotiations faced increased workloads, leading to delays.

The sum of the evidence against the government's claims was only made more compelling by their refusal — even under legal challenge by the Parliamentary Budget Officer — to measure or disclose data on service impacts. The more plausible explanation is that the government had a political motive to deny service impacts and was keen to ensure there was little public evidence to the contrary.

Framework of Analysis

A number of frameworks may be used to analyze risk in a program such as this. The one employed by the Treasury Board Secretariat uses a four-tier analytical approach. It is often paired with the comparables approach, which will be looked at in more detail in a subsequent case study. The four-tiers are as follows:

1. Strategy Risk: to what degree is the overall strategic approach appear to be sound? Is it consistent with public sector best practices?
2. Human Resource Risk: to what degree does the project proponent possess the capabilities to successfully execute the project.
3. Process Risk: to what degree does the proposal require the re-engineering of existing business practices? What is the magnitude of the proposed changes and how easily can they be implemented? What is the effect on stakeholders?
4. Infrastructure Risk: Is the existing infrastructure adequate to execute the proposal, or is new infrastructure required? In the case of the latter, are there risks inherent in the use/purchase of the new infrastructure?

Discussion

- I. Perform an assessment of the government's Deficit Reduction Action Plan using the four-tier analytical approach outlined in the previous section. Under which of the four tiers is the plan the strongest and weakest?
- II. On its face, a program review with the aim of finding efficiencies and cutting the budget while minimizing service impacts should be a financial and policy undertaking. However, it is clear that politics came to play an important role in this process. At what key junctures did politics insert itself into this process and what were the impacts?
- III. How would you react to a government request to cut your budget without impacting services if you felt that it was truly impossible to do so?
- IV. Speaking generally, what principles should guide a government's attempt to control or reduce spending? How do we define the value of services? What processes should we use to ensure success?
- V. How do you assess the government's transparency in measuring and disclosing service impacts in this case? More generally, does government have a responsibility to disclose the service impacts of changes to the public service the same way they have to disclose spending and FTE changes?

Annex

Table 5.1: Planned Reductions in Departmental Spending: millions of dollars

Portfolio	2012–13	2013–14	2014–15	Ongoing	Review Base	Per Cent of Review Base	Per Cent of Total Program Spending
Aboriginal Affairs and Northern Development	26.9	60.1	165.6	165.6	6,223.2	2.7	0.06
Agents of Parliament	8.3	8.8	16.4	16.4	–	–	0.01
Agriculture and Agri-Food	17.1	168.5	309.7	309.7	3,092.3	10.0	0.12
Canada Revenue Agency ²	14.8	87.0	225.4	253.1	3,641.2	6.9	0.09
Citizenship and Immigration	29.8	65.2	84.3	84.3	1,581.5	5.3	0.03
Environment	19.5	56.4	88.2	88.2	1,062.2	8.3	0.03
Finance ²	20.6	32.6	34.6	38.6	229.4	16.8	0.01
Fisheries and Oceans	3.8	13.4	79.3	79.3	1,360.1	5.8	0.03
Foreign Affairs and International Trade	72.4	116.6	169.8	169.8	1,916.2	8.9	0.06
Health	111.7	218.5	309.9	309.9	4,811.7	6.4	0.12
Heritage	52.2	130.7	191.1	191.1	2,773.7	6.9	0.07
Human Resources and Skills Development	10.6	64.7	286.7	286.7	7,589.8	3.8	0.11
Industry	89.2	182.7	217.3	217.3	3,454.4	6.3	0.08
International Assistance Envelope	180.7	242.1	377.6	377.6	3,896.8	9.7	0.14
Justice	21.2	69.0	76.9	76.9	898.3	8.6	0.03
National Defence	326.8	706.1	1,119.8	1,119.8	15,069.0	7.4	0.42
Natural Resources	68.3	86.0	108.3	108.3	1,079.6	10.0	0.04
Privy Council Office	3.7	6.5	12.2	12.2	102.6	11.9	0.00
Public Safety	179.4	370.7	687.9	687.9	6,940.6	9.9	0.26
Public Service Commission	2.2	4.5	9.0	9.0	89.9	10.0	0.00
Public Works and Government Services ²	1.5	28.1	85.3	177.6	1,848.6	9.6	0.07
Regional Development Agencies	26.7	73.4	86.9	86.9	996.2	8.7	0.03
Shared Services Canada	74.7	104.5	150.0	150.0	1,493.4	10.0	0.06
Transport	63.4	97.2	152.6	152.6	1,428.8	10.7	0.06
Treasury Board	10.4	18.6	30.2	30.2	281.1	10.7	0.01
Veterans Affairs	36.1	49.3	66.7	36.9	3,487.6	1.1	0.01