OFFICE OF
THE PARLIAMENTARY BUDGET OFFICER

BUREAU DU
DIRECTEUR PARLEMENTAIRE DU BUDGET

Fiscal Savings from Budget 2012

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Key Points of this Note:

- The Member of Parliament for Outremont requested that the Parliamentary Budget Officer (PBO) analyze the net ongoing financial impact of Budget 2012 savings initiatives.

- In April, the PBO requested data and information from each federal organization affected by the Budget 2012 spending reductions. As of May 24, 2013, almost three quarters of organizations had complied with this request, in whole or in part.

- The data do not permit the PBO to fully complete its analysis. However, they do provide evidence that in the short-term, the Government of Canada (government) will be able to implement the Budget 2012 reduction package. Over the longer-term, data are insufficient to assess whether the cuts are fiscally sustainable.

- The PBO remains willing and able to complete further analysis if the requisite data become available.

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1. Context

In November 2012, the Member of Parliament for Outremont requested that the PBO analyze the net ongoing financial impact of Budget 2012 savings initiatives. In particular, the member asked for analysis on whether the savings initiatives in Budget 2012 are likely to succeed and, where they are not, the fiscal impact on the Federal Treasury (*i.e.* cost).

Concern over whether federal organizations will achieve forecasted savings arises from experience. The past 20 years have witnessed the reversal or failure of a number of savings initiatives, among them the $1 billion earmarked in Budget 2000 to address safety concerns regarding federal infrastructure following Program Review and the $1.4 billion write-off of procurement reform announced in the 2006 Economic and Fiscal Update.[1,2]

2. Methodology

Savings initiatives may pose short-term implementation risks and long-term sustainability risks. Assessing the fiscal impact on the federal Treasury of any savings initiative requires a consideration of both. As seen in Figure 2-1, different questions must be asked to assess each.

Figure 2-1
Implementation risk assessment

Short-Term	▪ ***Can organization implement unilaterally?*** ▪ ***Are legislative or regulatory changes required?*** ▪ ***Does implementation require internal restructuring?***
Long-Term	▪ ***Are savings based on productivity improvements?*** ▪ ***Are capital investments planned to support productivity improvements?***

Source: *PBO*

Short-term implementation risk depends on the ability of organizations to implement the initiatives announced in Budget 2012.[3]

On the one hand, it is relatively straightforward to reduce staff or grants to third-parties. On the other, more complex initiatives contingent on agreement with external stakeholders or needing extensive internal re-engineering have a greater risk of not being fully implemented or not achieving the projected fiscal savings.

For instance, while the government initially indicated that $11 million per year would be saved by reducing transfer payments to the Royal Canadian Mint to produce the penny, this was subsequently revised once implementation began and more data considered.[4]

In contrast, long-term sustainability reflects the ability of organizations to sustain, in future budget years, the initiatives announced. This will depend on whether the initiatives are based on permanent productivity improvements and, if so, whether capital investments are planned to enable the improvements.[5]

For example, cuts to the “back office” operations of federal programs might be expected to improve productivity, but only if accompanied by restructuring of processes and enabling investments (Box 2-2).

In April 2013 the PBO requested data from all organizations affected by spending reductions announced in Budget 2012.[6]

[1] http://fin.gc.ca/budget00/bp/bpch5_1-eng.asp#Infrastructure. Accessed May 2013.
[2] http://fin.gc.ca/ec2006/pdf/ec2006e.pdf. Accessed May 2013.
[3] For the purposes of this analysis, “organizations” include all federal entities listed in Annex I of Budget 2012.
[4] http://gazette.gc.ca/rp-pr/p2/2012/2012-12-19/html/sor-dors264-eng.html. Accessed May 2013.
[5] Note: Permanent productivity improvements are also predicated on a number of change management considerations which are outside of the scope of this note.
[6] http://www.pbo-dpb.gc.ca/files/files/IR0113_Depts_Budget_2012_Request_EN.pdf. Accessed May 2013.

Box 2-2

How does the government save money?

The government spends money to deliver services to Canadians. To save money, it reduces the amount that it spends.

When spending is reduced, the quality or quantity of public services falls unless the government can do what it was doing before with less. This is what is known as productivity. If the government is able to do more with fewer resources, it may be able to avoid, to some extent, reductions in services that would otherwise flow from a reduction in spending.

Public sector productivity is generally not directly measured as government outputs are highly subsidized or free. Instead, most jurisdictions monitor efficiency, which is the change in the level of inputs for a given amount and quality of output. This is the approach adopted by the PBO: to identify whether each savings initiative is predicated on an efficiency improvement (fewer resources, same or higher service level) or a cut (fewer resources, lower service level).

Knowing whether service levels are affected is, therefore, essential for assessing the viability of planned spending cuts. They are, in essence, the two sides of the scale. Whether or not a certain spending reduction is attainable depends on the services that are planned to be delivered, and whether or not a service level is attainable depends on the money that is available to spend.

However, in addition to spending and services, other factors play a role in determining whether cuts will be successful. Actual cuts, in the form of layoffs or reductions in grants and contributions, will work to save money but risk affecting services. So-called "efficiency savings", on the other hand, while holding services harmless, often do not save the money they are expected to.

These data were drawn from the PBO's analytical framework and included the nature of the cost reduction (*e.g.* personnel layoffs, elimination of transfer payments to third-parties), its complexity (*i.e.* whether they required restructuring of federal operations, or some form of alternate service delivery) and associated assumptions regarding productivity improvements (*i.e.* the quantity and quality of federal services following the spending reductions).

Figure 2-3 outlines how the economic data requested from federal organizations maps to the PBO's analytical framework.

The description of each initiative, its cash outflows (*i.e.* gross savings) and corresponding staffing reductions are used to assess whether there is any immediate implementation risk. This allows the PBO to identify where the government may be unable to implement as anticipated, or where there may be a risk to proper implementation, either of which could consequently result in the write-off of part or all of the savings (*i.e.* similar to the experience with the 2005 Procurement Reform initiative).

The longer-term "sustainability" of the initiatives depends on the description of the initiative, cash outflows, cash inflows (*e.g.* investments) and whether service levels (*i.e.* output volume or quality) are materially affected.

Figure 2-3

Assessment Matrix for Requested Data

	Short-Term "Implementation"	Long-Term "Sustainability"
Description	●	●
Cash Inflows		●
Cash Outflows	●	●
Staff Reductions	●	
Service Levels		●

Source: PBO

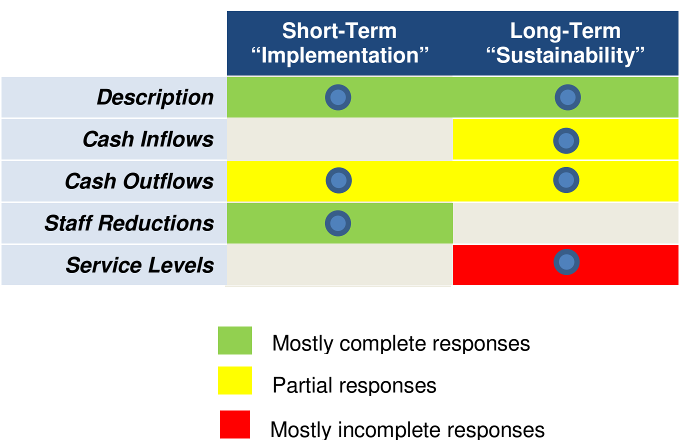
3. Analysis

Fourteen organizations submitted information by the May 10, 2013 deadline.[7] Forty-six submitted information after the deadline, but before the preparation of this report. Thus, this analysis includes 60 of 82 federal organizations included in Budget 2012, Annex I.[8]

As presented in Figure 3-1, all provided a brief description of each initiative and corresponding staffing reductions. Some provided details regarding cash inflows and outflows. Few provided information regarding service level impacts, with several organizations indicating that these data are deemed to fall outside of the PBO's legislative mandate.

Figure 3-1

Government Responses



Source: PBO

Only a partial, high-level analysis can be performed with respect to short-term implementation risk because details regarding cash outflows have not been fully provided. Similarly, no empirical analysis on long-term sustainability can be performed, given that very few data were provided regarding changes to service levels.

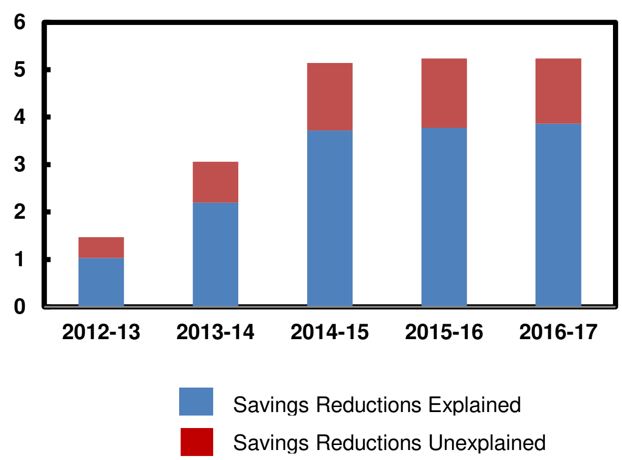
Short-Term Implementation

Organizations submitting information to the PBO account for approximately three quarters of the dollar savings in Budget 2012 (Figure 3-2).

Figure 3-2

Data Coverage of Budget 2012 Cuts

$ Billions



Sources: Government of Canada; PBO

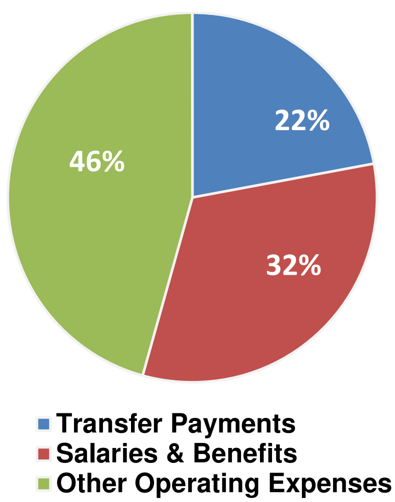
[7] http://www.pbo-dpb.gc.ca/files/files/IR0113_Depts_Budget_2012_Request_EN.pdf. Accessed May 2013.
[8] http://www.budget.gc.ca/2012/plan/pdf/Plan2012-eng.pdf. Accessed May 2013.

Based on data provided by the Treasury Board Secretariat and Finance regarding the planned fiscal impact of Budget 2012, approximately 32 per cent of the government's savings plan is forecast to be realized through reductions in personnel (Figure 3-3).[9]

Figure 3-3

Budget 2012 Savings Measures

Per cent



Sources: Government of Canada; PBO

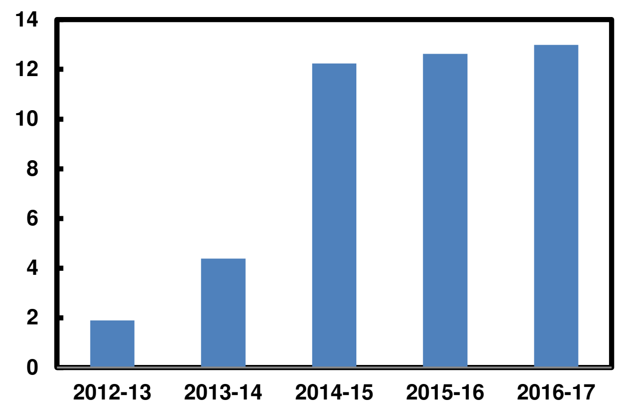
Based on information provided by the 60 federal organizations, the PBO can account for a net reduction of approximately 14,000 full-time equivalent positions by 2016-17 (Figure 3-3). These reductions comprise approximately 68 per cent of the 19,200 full-time equivalent reductions planned in Budget 2012. The government expects to realize $92,000 in savings per FTE reduction.

Given that Budget 2013 indicated that 16,220 positions had been eliminated in the first three quarters of 2012-13, the government appears to be implementing this component of savings ahead of schedule. As well, the overall fiscal savings target of $1.5 billion in 2012-13 has been achieved based solely on staffing reductions.[10]

Figure 3-4

Planned Personnel Reductions

# of full-time equivalents



Source: Government of Canada

Reductions in transfer payments represent approximately 22 per cent of the total savings. As noted earlier, transfers are another component of expenditures where reductions can be implemented by organizations with little consultation or negotiation. Similarly, the remaining 46 per cent of reductions in "other" operating expenses are also under the direct control of organizations.

Overall, the available data do seem to indicate that organizations will be able to implement the spending reductions over the short term.

Long-Term Sustainability

The extent to which the government plans to deliver the same level and quality of public

[9] http://www.pbo-dpb.gc.ca/files/files/IR/Response_IR0081_Finance_EN.pdf, http://www.pbo-dpb.gc.ca/files/files/IR/Response_IR0081a_TBS_EN.pdf. Accessed May 2013.

[10] The government indicates that 16,220 positions were eliminated during the first 9 months of 2012-13. With an average cost per FTE of $92,000, results in $1.5 billion in ongoing savings.

services with fewer resources, and its plan for doing so, drive any assessment of long-term sustainability. However, only 16 of 82 organizations, accounting for approximately 8 per cent of the savings proposed in Budget 2012, have provided this information.

Given this, empirical assessment of whether the reductions are sustainable in the long term is impossible. To that extent, the PBO cannot comply with the Member's request.

At the same time, inferences regarding overall federal productivity can be made through the planned output data presented in the 2012-13 and 2013-14 Reports on Plans and Priorities (*i.e.* Part III of the Government's Estimates). Federal organizations prepare Reports on Plans and Priorities (RPPs) to outline specific plans and goals for a three-year planning period. Each organization provides analysis on its strategic outcomes and program activities, along with corresponding performance indicators and targets for the planning period.

The PBO examined all performance indicators and targets for each federal program activity between 2012-13 and 2013-14 (Box 3-5). Approximately three-quarters of program activities have unchanged performance targets from 2012-13 to 2013-14. Roughly one-fifth of program activities have higher performance targets in 2013-14 and the balance have reduced performance targets.[11]

Savings initiatives are only one factor affecting the performance of a program activity. As such, the PBO cannot determine the direct link between service level standards and Budget 2012 measures. However, based on the examination of performance targets and indicators, it appears that in aggregate, the government's service level targets remain largely unchanged.

Box 3-5

Measuring Changes in Service Levels

The PBO compared the performance indicators and targets outlined in organizations' 2012-13 and 2013-14 RPPs to determine planned service level impacts. Comparable program activities were examined on the basis of performance targets and indicators, according to the following scoring system:

- Performance target increases were assigned a +1
- Performance target decreases were assigned a -1
- Unchanged performance targets were assigned a 0

Performance target scores were then summed within program activities to determine a composite score for each program activity. Program activities with a score greater (less) than zero are deemed to have increased (decreased) performance targets. Activities with a score equal to zero are considered unchanged.

Program activities that had different performance indicators than the previous year were excluded from this analysis, as the impact on service levels cannot be easily determined.

Maintaining overall service levels while at the same time reducing spending by $5.2 billion suggests an increase in productivity (*i.e.* doing more, or the same, with less). It is also notable that these productivity gains will be achieved with relatively limited incremental investment.[12]

Ten of the 60 reporting organizations reported investment inflow requirements. These cash inflows portray the investment required to enable savings measures (*i.e*. monies to procure IT systems to automate processes; workforce

[11] Several organizations made changes to Performance Indicators and Targets that were not comparable between reporting years. Resulting changes to service levels were deemed indeterminable. As such, approximately 28 per cent of the government's program activities could not be included in this service standards analysis.

[12] While organizations were asked to provide the basic cash flow characteristics of each savings measure (*i.e.* inflows and outflows), few complied. Rather, most provided anticipated savings only on a net basis. In these cases, the PBO assumed the associated investment cash flows to be nil.

adjustment expenses for personnel reductions). Aggregate investment is highest in 2012-13, at $38 million, declining to $25 million in 2017-18.

Organizations reported that many efficiency initiatives do not require any investment to generate savings. At the same time, those that do plan investments anticipate immediate and significant returns over the first five years. Figure 3-6 identifies three such initiatives that will generate up to $8 in savings for each dollar invested in 2012-13.

Figure 3-6

Examples of Savings (5-year cumulative)

	Investment	Savings	Return on Investment
HR Management Consolidation	$1.7 M	$8.6 M	405%
Consolidation of Laboratory Operations	$0.6 M	$5.0 M	733%
Integration of Program Delivery	$1.0M	$5.7 M	470%

Sources: Government of Canada, PBO

4. Conclusion

Federal organizations provided the PBO with 73 per cent of the savings measures proposed in Budget 2012. However, few provided information regarding cash inflows, outflows or performance indicators and targets, as requested by the PBO in April 2013.

While interim summary statistics are provided in the preceding analysis, the PBO is unable to conduct an assessment of the fiscal risk and long-term sustainability of Budget 2012 savings measures. If these data become available, the PBO is willing and able to complete this work.

Given that preliminary findings seem to suggest that the government plans to spend less and achieve a similar level of output (*i.e.* less money, similar results), parliamentarians may wish to solicit further details regarding how this will be accomplished.