

OFFICE OF THE
PARLIAMENTARY BUDGET OFFICER



BUREAU DU
DIRECTEUR PARLEMENTAIRE DU BUDGET

Monitoring Update on the Government's Operating Budget Freeze

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www.parl.gc.ca/pbo-dpb

The *Parliament of Canada Act* mandates the Parliamentary Budget Officer (PBO) to provide independent analysis to the Senate and House of Commons on the state of the nation's finances, the estimates and trends in the national economy.

This note provides an assessment of the strategies used by federal organizations to manage the impact of the Government's operating budget freeze on human resources. While most departments have identified the operating budget constraint as a key factor in human resource planning over the medium-term, only one has identified a concrete strategy to address its impact. This suggests that business planning may not be aligned with available resources.

Parliamentarians may wish to solicit further information from departments and agencies regarding how their business lines will be affected by fewer staff, including details regarding service levels and operating risks.

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*Comments are welcome. Contact Jason Jacques (e-mail: jacqui@parl.gc.ca) for further information. The Parliamentary Budget Officer thanks the public servants that took the time to respond to the information request that supports this note.

Background

- Budget 2010 announced three measures to reduce the rate of growth in operating spending;
 - A freeze on increases in departmental spending on travel, hospitality and conferences, originally introduced in Budget 2009, was maintained at 2008-09 levels;
 - Departments and agencies would be required to reallocate internally to fund planned wage increases across the public service of 1.5% in 2010-11; and,
 - In the two subsequent years (2011-12, 2012-13), operating budgets of departments would be frozen at 2010-11 levels.¹
- Collectively, these initiatives were referred to as an “operating budget freeze” and expected to save \$6.8 billion over five years, including \$300 million in 2010-11. This triples to \$900 million in 2011-12, and rises further to \$1.8 billion in 2012-13.
- In the October *Update of Economic and Fiscal Projections* the Government projected that the operating budget freeze would restrain growth to approximately 1.4% per year, on average, over 2010-11 to 2015-16. This is lower than the average growth rate of 6.4% per year in operating expenses and capital amortization over the five-year period immediately preceding the Economic Action Plan (2004-05 to 2008-09).²
- Parliamentary Committees and PBO requested details regarding how the planned operating budget freeze would be achieved over the projection period. However, the Government indicated that this information is a Cabinet confidence and will not be released to the public.³
- Supplementary Estimates 2010-11 (B) contained references to 51 reductions in departmental and agency operating budgets attributable “to savings identified as part of the cost containment measures to reduce the rate of growth in operating expenditures announced in Budget 2010”.⁴ During Committee hearings, Treasury Board Secretariat (TBS) officials indicated that the short-term savings targets would be achieved by economies on travel and hospitality, and in the longer-term would be expected to “pinch” the wage bill. ⁵
- The President of the Treasury Board has also noted that public service attrition will be the primary mechanism to achieve the operating freeze savings targets; observing that approximately 11,000 public servants vacate their positions each year. ⁶

¹ <http://www.budget.gc.ca/2010/plan/chap4a-eng.html>.

² http://www2.parl.gc.ca/sites/pbo-dpb/documents/EFA_2010.pdf.

³ http://www2.parl.gc.ca/sites/pbo-dpb/documents/Response_IR009B.pdf.

⁴ <http://www.tbs-sct.gc.ca/est-pre/20102011/sups/B/docs/index-eng.pdf>.

⁵ <http://www2.parl.gc.ca/HousePublications/Publication.aspx?DocId=4840541&Language=E&Mode=1&Parl=40&Ses=3#T0925>.

⁶ <http://www.theglobeandmail.com/news/politics/ottawa-to-rely-on-public-service-attrition-for-lions-share-of-spending-cuts/article1805169/>.

Analysis

- The Public Accounts of Canada identify seven types of expenses that comprise operating budgets. As noted in Table 1, personnel costs represented approximately two-thirds of operating costs in 2009-10. Over the past 5 years, personnel expenses have been the largest net contributor to increases in operating expenses, rising by an average of 8.3% per year.

Table 1. Ministerial Operating Expenses by Standard Object¹

Type of Expense	\$ millions	Share of Total
Personnel	41,009	67%
Transportation and Communications	3,098	5%
Information	347	1%
Professional and Special Services	8,148	13%
Rentals	1,892	3%
Repair and Maintenance	3,206	5%
Utilities Materials and Supplies	3,117	5%

1. From Table 3a, Volume II, Public Accounts of Canada 2009-10 (<http://www.tpsgc-pwgsc.gc.ca/recgen/pdf/50-eng.pdf>) Accessed January 2011.

- Consistent with the observation of the President of the Treasury Board, growth in personnel expenses will need to decrease substantially to achieve the operating budget freeze targets. Given that recent wage settlements with public sector unions have been approximately 5.3% over three years, this will require reductions in the number of public servants.⁷
- To assess the potential impact of the Government's strategy to use attrition as the principal mechanism to achieve operating savings, PBO requested copies of the Human Resource Plans for ten federal organizations, which collectively employ almost 160,000 public servants and were responsible for over half of operating spending in 2009-10.⁸ TBS recommends that all departments and agencies prepare these documents as part of their annual planning exercises, to ensure that human resources are available to achieve organizational goals and sustain business lines.⁹
- Given the Government's focus on staffing reductions over the medium-term, the PBO expected that the Human Resource Plans would identify how each organization would achieve the savings (*i.e.* which employee groups would see the greatest headcount reductions) and whether service standards or operating risks would be affected.

⁷ <http://psac.com/news/2010/bargaining/20101004-e.shtml>

⁸ <http://www2.parl.gc.ca/sites/pbo-dpb/documents/IR038.pdf>

⁹ <http://www.tbs-sct.gc.ca/hrh/ip-eng.asp>

- As noted in Table 2, as of January 20, 2011, eight organizations had responded to the PBO information request. Most responded within the 10-day time period requested by the PBO and the others soon after. However, two organizations (Correctional Services Canada, Royal Canadian Mounted Police) did not respond to the PBO request.¹⁰

Table 2. Human Resource Plans Requested by PBO

Organization	Date Received ¹
National Defence	December 21 st
Human Resources and Skills Development Canada	December 1 st
Public Works and Government Services Canada	December 1 st
Indian and Northern Affairs Canada	December 14 th
Correctional Services Canada	No Response
Industry Canada	December 1 st
Transport Canada	December 9 th
Royal Canadian Mounted Police	No Response
Fisheries and Oceans	December 1 st
Canada Border Services Agency	November 30 th

1. Reports received within the 10-day requested response period (on or before December 1, 2010) are highlighted with green; responses received after this period are highlighted in orange. Organizations that have failed to respond (as of January 20, 2011) are highlighted in red.

- As presented in Table 3, the ten organizations that received the information request reported that they collectively expected to reduce employment by approximately 1,000 full-time staff over the medium-term. Forecast decreases in most organizations were offset by a substantial forecast increase in Correctional Services Canada. Overall, there is limited evidence that current plans will meet the President of the Treasury Board's public service attrition target (*i.e.* 11,000 full-time positions per annum).

¹⁰ It should also be noted that several departments (Human Resources and Skills Development Canada, Fisheries and Oceans Canada, and Industry Canada) post these documents on their external websites for the public.

Table 3. Planned Changes in Full-Time Equivalents¹

	<u>2010-11</u>	<u>2012-13</u>	<u>Δ</u>
National Defence ²	30,355	30,400	45
Human Resources and Skills Development Canada	27,457	23,899	(3,558)
Public Works and Government Services Canada	14,539	14,306	(233)
Indian and Northern Affairs Canada	5,202	4,979	(223)
Correctional Services Canada	16,587	20,706	4,119
Industry Canada	5,279	5,176	(103)
Transport Canada	5,360	5,162	(198)
Royal Canadian Mounted Police	29,840	28,697	(1,143)
Fisheries and Oceans	11,025	11,022	(3)
Canada Border Services Agency	13,607	13,841	(234)
TOTAL	159,251	158,118	(1,133)

1. From 2010-11 Report on Plans and Priorities (<http://www.tbs-sct.gc.ca/rpp/2010-2011/index-eng.asp>) published subsequent to the announcement of the Operating Budget Freeze in Budget 2010. Accessed January 2011.
2. Civilian workforce only.

- Consistent with TBS guidelines and testimony of TBS officials to parliamentarians, PBO expected that the Human Resource Plans of organizations would identify the operating budget freeze and related staffing reductions as a key consideration. Given the magnitude of the potential staffing reductions, it was also expected that organizations would identify strategies to maintain their service levels and business lines with fewer staff.
- As presented in Table 4, few organizations identified the operating budget freeze as a consideration in human resource planning or presented a strategy to address this risk. As noted below, six organizations identified the decreased operating budgets as a consideration in their staffing plans. However, only one (Human Resources and Skills Development Canada) identified a specific strategy that would be employed to maintain service quality and manage business risks in the face of resource constraints.¹¹

¹¹ Human Resources and Skills Development Canada identified technology upgrades and business process restructuring for human resource management as two initiatives that would be undertaken to reduce costs, improve resource allocation and ensure adequate resources are made available to manage risks and support current service standards.

Table 4. Risks and Mitigation Strategies in Corporate Human Resource Plans

	Report Content:	
	<u>Risks</u>	<u>Strategies</u>
National Defence	Y	N
Human Resources and Skills Development Canada	Y	Y
Public Works and Government Services Canada	N	N
Indian and Northern Affairs Canada	Y	N
Correctional Services Canada	No Response	
Industry Canada	N	N
Transport Canada	Y	N
Royal Canadian Mounted Police	No Response	
Fisheries and Oceans	Y	N
Canada Border Services Agency	Y	N

Key Questions for Parliamentarians

- Parliamentarians may wish to consider inviting the Deputy Ministers to appear before Standing Committees to explain the specific staffing impacts of the operating budget freeze on their organizations, as well as the strategies they intend to use to maintain service quality and business line risks.
- Of particular interest may be the two agencies that did not respond to the PBO request, yet report significant planned changes in their staffing levels (Correctional Services Canada to *increase* by over 4,000; Royal Canadian Mounted Police to *decrease* by over 1,000).
- Parliamentarians may also wish to request that organizations outline their plans for achieving the operating budget freeze targets in the next series of Reports on Plans and Priorities, which are due to be released toward the end of March 2011.