



## **IMPACT OF 'PROGRAM REVIEWS' ON FEDERAL PUBLIC SECTOR WORKERS**

*More than a decade later, American politics seems stuck in the same place. Again we face mega deficits as far as the eye can see—only this time, as we will, the fiscal crisis is permanent. ... It shows how we can turn fiscal crisis into an opportunity to wring far more value out of our public institutions. The first step is to turn the budget process on its head, so that it starts with the results we demand and the price we are willing to pay rather than the programs we have and the costs they incur. The second is to build the budget by deciding to buy only those programs that deliver the results we want and leave the rest behind. Then we must cut government down to its most effective size and shape, through strategic reviews, consolidation, and rightsizing; use competition to squeeze more value out of every tax dollar; make every program, organization, and employee accountable for results; use technology to empower customers and save money; and reform how government works on the inside (its management systems and bureaucratic rules) to improve its performance on the outside. ...<sup>1</sup>*

It has been almost eight years since the book [The Price of Government](#) by David Osborne and Peter Hutchinson was published, from which the above quote was extracted. That book focused specifically on fiscal crisis, claiming to provide public sector solutions to painful dilemmas that such a crisis poses. While one might not agree with some of the premises developed within the above book, one must acknowledge the nature of the continuing issues raised in the book as a result of the 'Great Recession' begun in 2008. The resulting strains on government fiscal management are even more critical in today's economy. Governments' deficits have climbed to all-time record levels. Pressures are mounting to cut public sector services at all levels of government—municipal, state/provincial, federal.

Representing two of the largest employers in North America, the federal governments in the U.S. and Canada employ hundreds of thousands of workers. Federal public servants are like other public sector workers, significantly different from most private sector workers in that:

- ☞ They are more heavily organized, representing the largest organized workforces.
- ☞ Many work in what are deemed to be [essential services](#), including those related to homeland security, national defence, emergency response, transportation, public health and safety, etc.
- ☞ Employee compensation packages include family leave provisions, defined retirement plans, health and dental benefits, and continuing benefits' coverage for retirees.

In the last two decades, governments have set up special commissions or review processes to examine ways in which to make bureaucracies more efficient and reduce the overall costs of program delivery. President Clinton initiated his [National Performance Review](#) which lasted during his eight years in office. In Canada, Prime Ministers undertook a broad [Program Review](#) during the mid-1990s, resulting in reducing the federal public service by over 50,000 employees through hiring freezes, attrition, layoffs, buyouts, outsourcing and privatization. Today, governments in both countries are under greater

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<sup>1</sup> *The Price of Government (Getting the Results We Need in an Age of Permanent Fiscal Crisis.)*: David Osborne and Peter Hutchinson (Perseus Books Group, New York, NY, 2004) pp. xii - xiii

pressure to reduce the public sector size as a means to reducing deficits and the general size of government. Once again, both federal governments have launched major budget or program reviews primarily aimed at reducing federal government expenditures.

In the U.S., Congress launched a “supercommittee” charged with reducing the nation’s deficit. Officially called the [Joint Select Committee on Deficit Reduction](#), the 12-member bipartisan panel debated ways to reduce the deficit by more than a trillion dollars over 10 years.<sup>2</sup> Regardless of the resulting political deadlock, agencies are already preparing since legislated automatic cuts of \$1.2 trillion would go into effect in 2013.<sup>3</sup> In November 2011, President Obama also signed an executive order requiring federal agencies to make 20 percent spending cuts on travel, equipment and technology, a move that should save billions of dollars annually, according to a senior administration official familiar with the plans.<sup>4</sup>

In Canada, the federal Ministers responsible for the [Treasury Board](#) initiated a review aimed at trimming departmental budgets by five percent annually by 2015. Departments have been directed to prepare a second scenario involving cuts of 10 percent. Almost certainly there will be civil service job cuts. But the final tally will depend on a few imponderables. One is the question of how many of the tens of thousands of baby boomers still in government work will opt to retire in the next few years.<sup>5</sup>

Increasingly, federal governments are being forced to reduce the public service size by either attrition, transfers, layoffs or outsourcing; thereby eliminating many positions and leaving the remaining public servants to take up the slack. These current cost-cutting initiatives will most certainly result in a number of consequences for the delivery of government services and the remaining workforce.

### ***What is meant by ‘dysfunctionality’ of service delivery?***

As a society, its citizens and elected representatives have to ask what it is that they want governments to do. Once, this is done, governments then have to establish priorities in relation to policies, programs and services. Also, what is it that the private sector can do better and more efficiently? These are crucial and fundamental steps in that there is of course only a limited amount of resources available — as determined by acceptable levels of taxation, economic growth, labour market considerations, etc. The danger with the short-term ‘program review’ approach is that governments tend to attempt to please as many of the electorate and interest groups as possible by spreading the consequences of budgetary cuts across the public sector. When this happens, certain essential and non-essential services and their delivery could be seriously affected until they become effectively ‘dysfunctional’.

For example, as part of the Conservative government’s attempt to implement an ambitious cost-cutting agenda in Canada by \$4 billion yearly, senior bureaucrats have been asked to draw up two scenarios for the funding of their departments. One involves cutting five per cent; the other 10 per cent. However, one has to question this approach knowing that some departments and agencies may not be able to endure such across-the-board percentage cuts without causing major problems for service delivery — especially where regulatory agencies are involved in ensuring on-going compliance with existing legislation. In the Canadian case of public safety, worker health and safety and environmental matters for example, reducing inspectorates and replacing proactive regulatory enforcement with measures stressing ‘voluntary compliance’ have proven not to have been overly effective in the past.

Where non-essential deemed services are affected, such as those overseeing grant and subsidy programs (often referred to as ‘discretionary’ spending), there may even be a fair argument that certain

<sup>2</sup> *Budget-cutting proposals could affect federal employees*: Joe Davidson, Washington Post, October 17, 2011

<sup>3</sup> *What a ‘supercommittee’ failure could mean for federal workers*: Ed O’Keefe, Joe Davidson and Eric Yoder, Washington Post, November 21, 2011

<sup>4</sup> *Obama orders agency spending cuts on travel, technology and swag*: Ed O’Keefe, Washington Post, November 9, 2011

<sup>5</sup> *Afraid of 2012? Remember the budget of 1995*: James Bagnall, Ottawa Citizen, June 11, 2011

programs should be simply eliminated. History has shown that extensive reductions in program resources often result in a lack of proper oversight, administrative delays and potential funding abuses.

### **How does reducing the federal public service immediately affect organizations' employees?**

*„,attrition can work for small reductions, but the bigger the spending cuts, the more difficult it becomes to manage by attrition alone. The government has an attrition rate of five per cent annually and about three per cent is due to retirement. Among executives, where retirements are highest, attrition is closer to nine per cent. — Maria Barrados, president of Canadian Public Service Commission<sup>6</sup>*

Simply put, like any other organization facing significant downsizing, the federal public service will demonstrate a number of employee reactions, including:

- ☞ Detrimental effects on employees' "morale" as result of downsizing and demands for compensation- and benefit-related concessions.
- ☞ Desire to seek alternative employment opportunities by unhappy and dissatisfied employees, either within the public service or the private sector (i.e. retention concerns).
- ☞ Growing disengagement by employees.
- ☞ Increased levels of employment-related stress, resulting in increased levels of absenteeism and presenteeism and a greater fear of job loss.
- ☞ Inability to be as productive and effective due to increased dysfunctionality in service delivery, thereby affecting a department's ability to achieve program objectives.

### **What are the implications of program reviews for public sectors in the long-term?**

*Linda Duxbury, a business professor at Carleton University's Sprott School of Business who specializes in managing change, argued the reductions should be more strategic, with government restructuring departments along the lines of the kind of business it wants to be in and keeping the people who have the skills to deliver those priorities. "It's disingenuous to think you can have attrition manage it. Attrition assumes the people who leave have skills that are no longer needed and that is not a good assumption to make," she said.<sup>7</sup>*

Not only are existing employees negatively affected by the loss of their colleagues due to budgetary cuts, but there is the real possibility that the recruitment of future employees, especially those with badly needed skills, could also be affected.

According to a recent British study by recruiter **Badenoch & Clark** of more than 1,000 public sector workers, disillusionment was particularly high among central government staff, with 63.3 percent feeling that they would not recommend working in the area to either those just embarking on their career or people fancying a career change. Respondents blamed the current cost-cutting agenda and job losses for their negative feelings.<sup>8</sup>

There is little doubt that such short-term personnel reductions will affect future HR retention and recruitment, especially where highly-skilled knowledge workers are already in short supply. As a result, there needs to be a longer-term strategy—involving input by employee representation—to lessen the impact on current and future employees and to avoid the consequences of short-term "knee-jerk" government reduction policies. Governments will have to make some hard choices in order to maintain a productive, innovative and viable work force in the short- and long-term.

<sup>6</sup> *Attrition alone won't slim PS - report*: Kathryn May, Ottawa Citizen, October 25, 2011

<sup>7</sup> Ibid: Kathryn May

<sup>8</sup> *Half of public sector workers fail to recommend it as career choice*: HR Zone, Posted by www.Publictechnology.net in [Recruitment](#), [Business lifestyle](#), November 8, 2011

***"Healthier organizations mean more productive employees."***

***There are also costs associated with privatization and outsourcing of public services.***

In the public sector, there are only a limited number of services that can be privatized due to the nature of the role of governments, especially in the case of highly sensitive information sources, public health and safety, environmental protection, homeland security, etc. Employees often find it difficult to be transferred to a privatized operation, particularly where compensation, benefits and collective bargaining can be negatively affected. In the past, a number of privatized operations had quality issues, and had to be returned to public sector oversight (e.g. prisons, airport security, IT support).

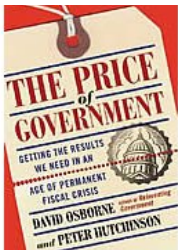
In recent years, governments have attempted to outsource various types of operational activities, resulting in massive increases in the use of outside contractors. For example, since the Conservative government came to power in Canada five years ago, they have dramatically increased the amount of money going to outside contractors offering management consulting, legal services and IT support. In 2010, the Federal Government spent \$10.7 billion, up from \$7.2 billion in 2005 on contractors.

While reducing certain costs (most notably w.r.t. benefit entitlements) associated with the employment of government workers, outsourcing has not always resulted in the anticipated level of savings. For example, in September 2011, the [Project On Government Oversight](#) (POGO), a nonpartisan independent watchdog, concluded that the U.S. government is wasting billions of dollars each year paying contractors to do work that could be done for about half the price by federal employees.<sup>9</sup>

*The report, which analyzed 35 federal job classifications, debunks the myth promoted by industry that private contractors cost less than government employees. Instead, POGO's study found that using contractors to perform services may actually increase, rather than decrease costs to taxpayers.<sup>10</sup>*

For this reason, there is a real need to involve affected government workers in the initial and continuous assessment of the value and effectiveness of outsourcing in their area of responsibility.

***Recommended Reading:***



***“The Price of Government”***

*(Getting the Results We Need in an Age of Permanent Fiscal Crisis.)*

by David Osborne and Peter Hutchinson

(Perseus Books Group, New York, NY, 2004)

- ◆ [Bad Business: Billions of Taxpayer Dollars Wasted on Hiring Contractors](#): Project on Government Oversight – U.S.
- ◆ [Canada's Public Service in the 21st Century - Destination Excellence](#): Public Policy Forum, 2008
- ◆ [Public Service Reductions in the 1990s: Background and Lessons Learned](#): Library of Parliament, April 12, 2010

***Recommended Web Sites:***

- ◆ Project on Government Oversight – U.S.: <http://www.pogo.org/>
- ◆ The Public Strategies Group – Reinventing Government – U.S.: <http://www.psggrp.com/>
- ◆ Institute on Governance – Canada: <http://iog.ca/>
- ◆ Institute of Public Administration of Canada: <http://www.ipac.ca/>
- ◆ The American Society for Public Administration: <http://www.aspanet.org/scriptcontent/index.cfm>

<sup>9</sup> *Private Service Contracts Cost Government Almost Double Expense of In-House Staff*. Project On Government Oversight News Release, September 13, 2011

<sup>10</sup> Ibid:

***“Healthier organizations mean more productive employees.”***