

At What Cost?

The Impacts of Rushing to Balance the Budget

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Executive Summary

The fall economic update will likely reiterate and potentially advance the balance date of the federal budget to the next fiscal year. The Conservative government has held off on introducing new policy initiatives announced in recent budgets, most of them on the tax front, until the budget was in surplus. While there was a political rush to meet these surplus commitments, there was no economic imperative. In fact, rapid cuts to balance the budget have led to weaker economic growth and a weaker job market in already precarious times.

While undermining Canada's economic recovery, the rush to balance the budget has also impacted federally delivered services. In fact, the biggest cuts were made in areas where Canadians most heavily rely on the federal government. It is not a stretch to say that veterans and the unemployed, for example, will be deprived of services for the sole sake of hurrying a return to federal surpluses. The cuts were implemented much more quickly than initially projected.



This report overviews the extent of federal government cuts and provides tangible examples of how these cuts have negatively impacted important public services. Given that the government has not been forthcoming about which programs have been cut and to what extent, this report examines spending and staff cuts as a proxy for service impacts.

This is not intended to be a comprehensive accounting of all service and program cuts; the full effects of the government's austerity measures will not be known for years. However, the examples provided in this report help debunk some of the central myths used to sell the cuts, namely that they will be small, short-lived, and will have no noticeable impact on quality of services. On the contrary, we find the following:

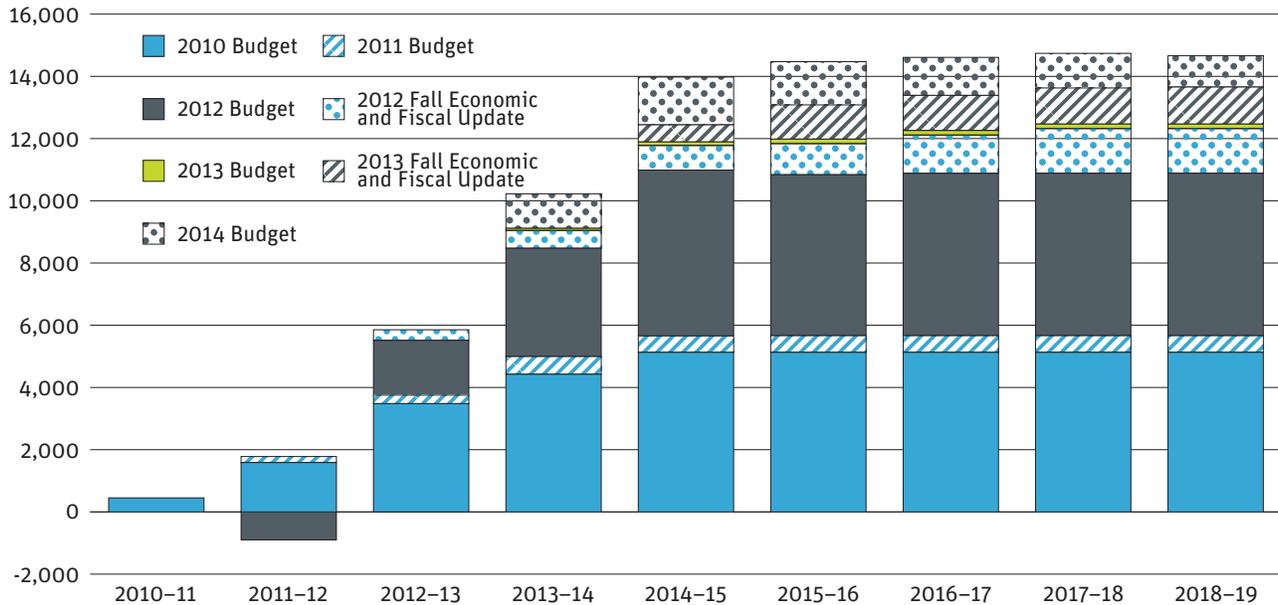
- *Federal cuts have not been small.* Canada did not announce large cuts all at once but instituted them on top of each other, over successive budgets, and pushed into the future. The cumulative effect of these cuts by 2015–16 will be \$14.5 billion a year.
- *Federal cuts will not stop at the end of 2014.* Just because the budget is balanced it does not mean the cuts have stopped. In fact, cuts will continue for another two years after the budget is balanced. Furthermore, there is no plan to reverse the cuts now that the budget is balanced. The cuts to government services are permanent.
- *Federal cuts have not left frontline services untouched.* Despite promises the cuts would be concentrated on the “back office,”¹ there has been a definite effect on services. The three program areas examined in detail in this report are cuts to Veterans Affairs, the Employment Insurance helpline, and food inspection, but the impacts of austerity are broader.

Fiscal Measures: The Cuts Have Been Significant

The first budget cuts were announced in the 2010 federal budget and they were modest compared to the eventual result. In subsequent budgets and fall economic updates, sometimes called mini-budgets by the media, additional cuts were stacked on top of these initial cuts. Since each additional round of cuts pushed more cuts onto future budgets, the stacking effect is substantial.

Each department maintains a baseline of spending that broadly attempts to maintain service levels adjusting for population changes and inflation. “Cuts” represent downward revisions to that baseline. In those circumstances, a budget freeze counts as a cut, since it will reduce the inflation-adjusted and population-adjusted service

FIGURE 1 Cumulative Federal Budget Cuts



Source: Federal Budget 2014, Table 4.1.2 and author's calculations

levels. In other words, Canada's population still increases and inflation eats away at the value of the budget when it is frozen. Affected government departments can provide less service than they could the year before.

There have been \$13.9 billion in cuts applied to the 2014-15 budget year. Next year, that will rise to \$14.5 billion per year in cumulative cuts, which will continue indefinitely at roughly that level.² If these cuts had not occurred, the expected government surpluses would be substantially smaller and start much further into the future.

These cuts were announced in small batches, the largest single announcement amounting to only 40% of the eventual total reduction. As such, the aggregate impact was harder to evaluate. The reality is that these cuts, in combination, have not been modest.

In addition, there was no central plan for how these cuts would be implemented. That is, a list of programs to be cut or scaled back was never provided; the task was given to individual government departments to carry out. One result of this approach is that the programs being cut cannot be accessed in a comprehensive way. Inferences must be made about what services are impacted based on changing expenditures and staffing levels. It may be years before a full accounting is available.

The Extent of Public Service Cuts

Over the last five years, the Government of Canada introduced successive rounds of cost cutting as part of a federal austerity program. Through a combination of spending freezes, budget reductions and program eliminations, the government has inflicted major cuts in public services in order to reach a budgetary surplus sooner than necessary. However, the federal government has been less than forthcoming with details about the impacts of their budget cuts.

In 2013, the Canadian Centre for Policy Alternatives published a report, *The Fog Finally Clears: The Job Impact of Federal Austerity*, that provided a comprehensive analysis of public service cuts on a departmental level.³ In general, the cuts hit vulnerable Canadians (e.g. veterans, recipients of employment insurance, Aboriginal Canadians), labour market and statistical data services (e.g. Statistics Canada, the Department of Human Resources and Skills Development Canada), regulatory capacity (e.g. food inspection, environmental assessments), tax collection and defence. Others analysts, including the Parliamentary Budget Officer, have looked at the effects of government austerity and particularly the lack of disclosure on the operational impacts of those cuts.⁴

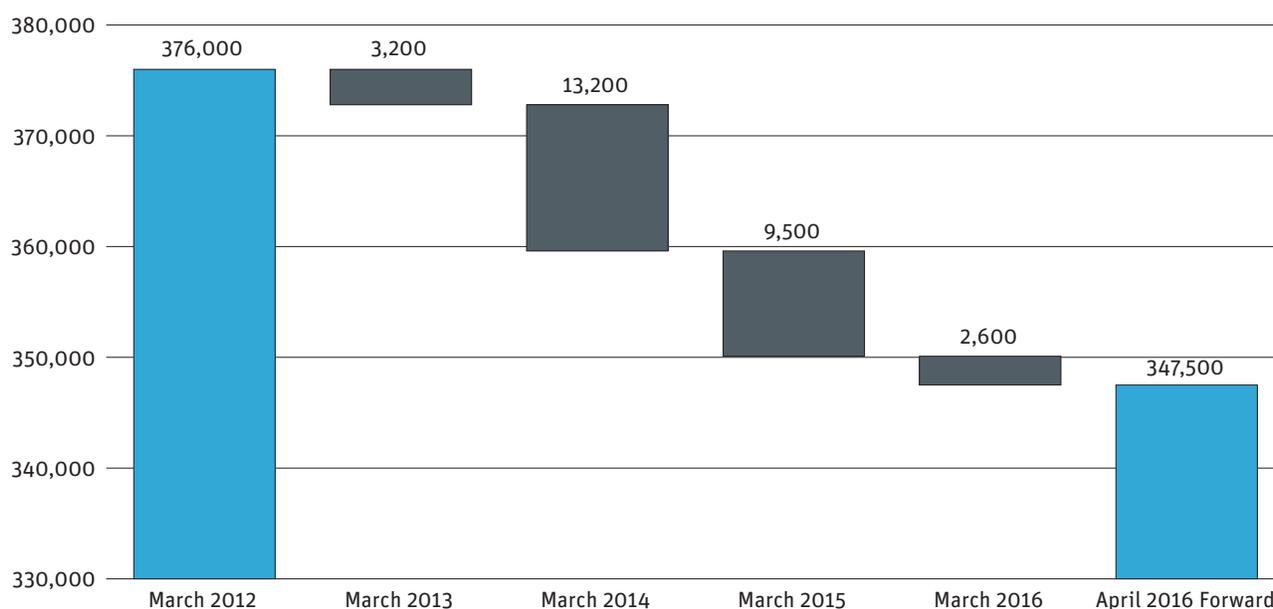
From March 2012 to March 2016, the total reduction in federal government employment, as reported by individual departments, will be 28,600 full-time positions. Total federal public service employment will fall from 376,000 to 347,500 full-time equivalents (FTEs) over a five-year period starting in 2012. This means that by 2016, the total number of people working for the federal government will have fallen by 8%, which is significantly higher than the 4.8% figure reported in Budget 2012.⁵

However, the cuts in employment appear to have been implemented much more rapidly than predicted and affect more people. Between July 2011 and July 2014, there are 36,900 fewer people working at the federal government.^{6,7}

The top departmental cuts by FTE reduction and by proportional decrease are shown below in *Figure 3*.⁸

Statistics Canada and HRSDC (now the Department of Employment and Social Development Canada) were both hit hard by cuts and made the top five list for both the highest absolute cuts and the highest proportional cuts.

In absolute terms HRSDC/ESDC will experience the largest loss of FTE positions, totalling 5,716 by 2016. Although it is a large department, this cut will nonetheless reduce total workforce by almost one-quarter. On a program level, the largest cut at HRSDC/ESDC in absolute terms is to Citizen-Centered Service. The frontline program, which helps Canadians access government services, including Employment Insurance, will lose 2,100 employees by 2016.

FIGURE 2 Federal Government Employment Cuts

Source Reports on Plans and Priorities 2011–12, 2013–14 & author's calculations

TABLE 1 Top 5 Departments by Number of FTE Cuts

	FTEs 3/31/2012	FTEs 3/31/2016	Total Change 2012–16	% Change 2012–16
Human Resources and Skills Development Canada	23,955	18,239	- 5,716	-24%
National Defence	96,991	93,414	- 3,577	-4%
Canada Revenue Agency	40,700	38,209	- 2,491	-6%
Statistics Canada	6,461	4,231	- 2,230	-35%
Correctional Service of Canada	20,408	18,200	- 2,208	-11%

Source Reports on Plans and Priorities 2011–12, 2013–14 & author's calculations

Departmental program cuts were almost always not from the so-called back office, represented by the 'Internal Services' program line in departmental Reports on Plans and Priorities (RPPs). In only one of the departments (CRA) facing the highest cuts (in either proportional or absolute terms) is the Internal Services program line the hardest hit program area. In all other departments, contrary to assurances in Budget 2012, the largest cuts come from program lines that deliver services.

TABLE 2 Top 5 Departments by Proportional Cuts¹²

	FTEs 3/31/2012	FTEs 3/31/2016	Total Change 2012–16	% Change 2012–16
Statistics Canada	6,461	4,231	- 2,230	-35%
Human Resources and Skills Development Canada	23,955	18,239	- 5,716	-24%
Veterans Affairs	3,665	2,793	- 872	-24%
Aboriginal Affairs and Northern Development Canada	5,353	4,259	- 1,094	-20%
Canadian Food Inspection Agency	6,914	5,507	- 1,407	-20%

Source Reports on Plans and Priorities 2011–12, 2013–14 & author's calculations

Case Study: Cuts to Veterans Affairs

Veterans Affairs Canada is the department tasked with delivering services to retired members of Canada's Armed Forces and the RCMP. Veterans Affairs Canada was the department hit third hardest by federal staffing cuts.⁹

From 2011–12 to the current 2014–15 budget year, the Veterans Affairs staff complement has been cut by 24% with an additional 1% cut planned by 2016–17.¹⁰ These cuts are permanent and will not be restored after the budget has been balanced.

At a program level, as revealed in the 2013 CCPA analysis, the largest proportional staff cut will be to the program supporting disability, death and financial benefits for veterans, where 32% of the positions will be cut.

The cuts to Veterans Affairs hit the front pages in February 2014 when nine front-line service centres across Canada were closed. The offices were located in Corner Brook, Newfoundland and Labrador, Charlottetown, Prince Edward Island, Sydney, Nova Scotia, Thunder Bay and Windsor, Ontario, Brandon, Manitoba, Saskatoon, Saskatchewan, and Kelowna and Prince George, British Columbia.¹¹ These centres helped veterans access complicated federal programs specifically for veterans as well as serving a case management role.

The government claimed that these cuts were actually an increase in service levels since veterans would now be able to visit Service Canada locations, which are more numerous. However, veterans groups said these locations were a poor substitute for the specialized services provided by VAC regional offices, and that Service Canada offices cannot be used for one-on-one case management.¹²

Case Study: Cuts to ESDC and Citizen-Centred Service

As noted already, HRSDC/ESDC had the highest number of absolute staff cuts and the second highest proportional staff cuts. Between March 2012 and April 2016, the department will have been cut by 24%, or by 5,716 FTEs.¹³

Given the government's promise in Budget 2012 that cuts would not impact services, it is striking that the branch of ESDC with the largest absolute cut to staffing is the Citizen-Centred Service branch. This program is designed to help Canadians access government programs, and to answer questions from the public about those programs online, over the phone and in person. Citizen-Centred Service is the program responsible for Service Canada operations, the 1-800-0-Canada telephone line, and operating helplines for several programs, including Employment Insurance. Essentially, this is the branch of ESDC that is entirely focused on serving the public.

The staff complement and budget for this frontline program has been cut substantially. The inflation-adjusted budget for Citizen-Centred Service has been cut by 26% (\$159 million) between 2011–12 and 2014–15, with an additional 27% (\$167 million) in cuts expected by 2016–17. This means the program will have been cut in half once all the cuts have occurred. Likewise, the staff complement for Citizen-Centred Service has been cut by 46%, or 2,100 positions.¹⁴

As a multifaceted program with a number of sub-programs, budget cuts to Citizen-Centred Service could be impacting Canadian services in a variety of ways that are difficult to predict. However, one clear area where service has suffered is the EI helpline service.

Numerous news articles over the last two years have highlighted delays in EI processing and problems with the EI helpline. According to a recent news report by Global News, 30% of callers to the EI helpline in 2012 received a message saying, "Our call volume is high and we are unable to transfer your call." The proportion of sidelined callers had more than tripled from 2006, when it was 8%.¹⁵

A performance report of EI service delivery lays out the raw numbers. In the 2011–12 budget year there were 14.1 million such "blocked calls" to the EI helpline and 12 million in 2012–13.¹⁶ These are cases where the phone lines were overloaded and individuals calling in were not even added to the queue. In essence, these Canadians called for help with their EI claims and got a busy tone.

In addition, there were 1.2 million abandoned calls where individuals waiting on hold had to hang up before they were connected to agents.¹⁷

Case Study: Cuts to Food Inspection

In April 2012, a *National Post* headline read: “Budget cuts mean 100 fewer food safety inspectors in Canada.”¹⁸ It was a bleak story but we now know the situation is much worse.

Proportionally, the Canadian Food Inspection Agency (CFIA) was the fifth-hardest hit government department in recent budget cuts. Between 2012 and 2016, the CFIA will have lost 1,407 full-time staff positions (FTEs), equivalent to 20% of its workforce.¹⁹ Adjusted for inflation, the budget of the CFIA will have been cut by 24% between 2011–12 and 2016–17.

The 2013 CCPA analysis determined that the largest staffing cuts at the CFIA, both in absolute terms and proportionally, will come from the animal health and zoonotics program, which helps mitigate the risks to human health from animals, fruit and vegetables. This program studies and monitors *bovine spongiform encephalopathy*, also known as mad cow disease. By 2016, this program will have been cut in half, with a loss of 720 positions.

The CFIA’s Food Safety Enhancement Program, which handles inspections of food packaging and production facilities as well food product regulation, has also faced major cuts. Between 2011–12 and 2016–17, this program faces budget cuts of 22% (\$82 million) and staff cuts of 13.5%, or 429 positions.²⁰

After the deadly listeriosis outbreak in 2008, the CFIA budget was increased slightly to strengthen Canada’s food security. The cuts imposed since 2011 reverse those increases — and then go further.

Conclusion

Government cost cutting has impacted Canadians in a variety of ways. The cuts profiled in this report have reduced services to veterans, made it harder for Canadians to access programs like Employment Insurance, and weakened food safety in Canada. However, these program reductions represent only a small portion of the government’s \$14.5 billion in budget cuts. Many other services that Canadians rely on have likely been impacted.

This analysis, combined with past research, shows that contrary to federal government assurances in 2012 the largest cuts have been to frontline programs and services rather than internal ‘back office’ positions. It’s important to emphasize that these cuts have not been temporary measures to save money during the deficit years, and that they will not be reversed when the budget is balanced. This is the new status quo.

If the government does announce a budget surplus in the near future, Canadians need to know that this was achieved by weakening services affecting veterans, the unemployed, statistical data collection and food safety, among other areas. It is almost certain the government will use the surplus to pay for further tax cuts, not to increase service levels. This would be counterproductive considering continued economic uncertainty and weak job numbers, creating an environment where these services are even more important.

Notes

1 Budget 2012, pg 220

2 These cuts are detailed in Budget 2014 Table 4.1.2 and are labeled as “Spending Restraint.”

3 MacDonald, David (2013), “The Fog Finally Clears; The Job and Services Impact of Federal Austerity”. Canadian Centre for Policy Alternatives. Report released April 2013.

4 Jason Jacques and Jason Stanton, *Monitoring Implementation of the Government’s Expense Plan*, Parliamentary Budget Office, October 3, 2012.

5 Budget 2012, pg 221

6 Cansim 281-0023 SEPH Federal Government Public Administration, All employees, July 2011 to July 2014.

7 The number of employees is a different measure than Full Time Equivalents. It is expected that the latter will be smaller than the former. For instance, two employees both working half-time are worth one full time equivalent.

8 It should be noted that due to the creation of the new Shared Services department in 2012–13, which consolidates IT services across all departments, some FTE positions may have transferred between departments. This might overstate the job losses in individual departments slightly, but does not affect aggregate.

9 MacDonald, David (2013), *ibid*

10 In 2011–12, the VAC had a staff complement of 3,665 (FTEs). Three years later, in, the count is 2,793 — a decline of 872 or 24% of the department’s staff. Further cuts to 2,755 are planned between now and 2016–17. In inflation adjusted terms the department’s spending has decreased by about \$110 Million, proportionately much less than the staff cuts. The department explains that some of its costs have grown because of the cost of new program enrollments and because the department’s transfers are automatically indexed to inflation. Source: Based on 2014–15 VAC Departmental Report on Plans and Priorities, and data from ‘The Fog Finally Clears’.

11 Public Service Alliance of Canada (2013) “Veterans Affairs office closures — Questions and Answers” <http://psacunion.ca/veterans-affairs-office-closures-questions-and-answers-0>

12 *Ibid*.

13 See endnote 3.

14 The budget for Citizen-Centred Services was cut from \$599 million, inflation adjusted, in 2010–11 to \$440 million in 2014–15, a reduction of \$159 million or 26% of its budget. According to the Department Report on Plans and Priorities, the budget is expected to further decrease to \$273 million by 2016–17. Staff cuts source: The Fog Finally Clears.

15 <http://globalnews.ca/news/1206473/more-callers-being-sidelined-by-high-volume-messages-on-ei-help-line/>

16 Employment and Social Development Canada (2013), “EI Monitoring and Assessment Report 2013” Chapter 4 — Program Administration. <http://www.esdc.gc.ca/en/reports/ei/monitoring2013/chapter4.page?#h2>

17 Employment and Social Development Canada (2013), *ibid.*

18 Postmedia News (2012), “Budgets cuts mean 100 fewer food-safety inspectors in Canada” National Post. April 11t 2012, <http://news.nationalpost.com/2012/04/11/budgets-cuts-mean-100-fewer-food-safety-inspectors-in-canada/>

19 The CFIA has had a decrease of 1,407 FTEs (Source: The Fog Finally Clears) and budget cuts of \$182 million adjusted for inflation. Adjusted for inflation, the CFIA had a 2011–12 budget of \$770 million. For 2014–15 the CFIA budget has declined to \$619 million and is projected to be cut to \$582 million by 2016–17 — a cut of \$182 million or 24% of its previous budget. (Source: VAC Departmental RPPs 2011–12, 2014–15).

20 In 2011–12 the program had a budget of \$367 million, in 2014 dollars; the latest CFIA Report on Plans and Priorities projects the 2016–17 budget for the program to be \$285 million, a cut of \$82 million or 22%. The food safety program decreased from 3,177 staff positions (FTEs) in 2011–12 to 2,940 in 2014–15, with a projected further cut to 2,748 by 2016–17. All told, the Food Safety branch of the Canadian Food Inspection Agency will lose 429 staff positions or 13.5% of its workforce. (Source: The Fog Finally Clears and CFIA Reports on Plans and Priorities, 2011–12, 2012–13 and 2014–15).



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