

## OPINION: FINANCES

# Fiscally sustainable public services require transformative approaches

While Canada has yet to face the same crisis that is currently rattling Europe, the long-term implications of these structural deficits cannot be ignored. Canadians, their political leaders and officials must summon a sense of urgency in order to meet future fiscal challenges head on.



BY JIM ALEXANDER

OTTAWA—Since the 2008 financial crisis, Canada has emerged in better shape than many of its peers in the OECD, and sound government policy has received most of the credit. However, Canada has also been running a budget deficit since 2008/09, and the fiscal position of a number of provinces is a cause for concern. The debt burdens of Canada's largest provincial economies, Quebec and Ontario, are higher than most other provinces, and are projected to continue rising.

With long-term structural challenges, an aging infrastructure and shifting demographics continuing to dampen long-term projections for Canada's financial health, Canadian governments need to address these challenges now.

However, the prevalent approach of using short-term efforts to raise funds while implementing service cuts fails to address the real issue: a legacy structure of administrative and policy programs, services and processes. In order to deal with long-term fiscal constraints and shifting public expectations, the basic architecture and footprint of government needs to change.

*Shifting Gears: Paths to Fiscal Sustainability in Canada*, a report issued last week by The Mowat Centre and the School of Public Policy and Governance at the University of Toronto and supported by KPMG, examines how governments in Canada and across the OECD can transform the way they deliver services to citizens. The report recommends that old business models be questioned and that governments revisit how services are delivered.

This report tracks four approaches governments are taking to respond to budget deficits—short-term measures to increase revenue or decrease spending that

generate an immediate impact. These include increasing consumption-based taxes; increasing the top rate of income tax, corporate taxes; taxes on financial institutions, and more efficient tax enforcement. On the expenditure side, it includes public sector headcount reductions, wage moderation, pension cuts, and cuts to program budgets.

In the long-term, the truly sustainable changes come from examining both the revenue and the expenditure side through a transformative lens. A few examples are highlighted below. On the revenue side, payment by results and tapping into new sources of funding through mechanisms such as Social Impact Bonds offer both a fresh and out-of-the box approach. Tying compensation to results that include both the delivery of services and budget savings through Social Impact Bonds could generate real cost savings by having service providers underwrite the cost of service delivery where payment is only made when pre-set targets are met.

On the expenditure side, there are some excellent leading practices that include the co-production of services through collaboration with private and non-profit service providers; undertaking skills audits to ensure the least expensive, competent practitioner is delivering the necessary service; collective agreements that include more flexibility for management and labour to respond to changes in technology and job requirements; and doing sector-wide reviews of programs and services to streamline and eliminate legacy programs that have outlived their usefulness.

Other practical steps on the transformative expenditure side include: advances in digitization so that individuals can better manage their interaction with governments, as well as new approaches to collective bargaining and arbitrations rules to ensure that governments have an ability to control the costs of labour. Overall, the key will be measuring savings against the delivery of services.

Finding efficiencies does not have to mean cutting services or

reducing quality. A clear example is Project QUEST in the United Kingdom, sponsored initially by the Home Office and delivered by KPMG. More than 20 large police forces and organizations have delivered \$240-million in first-year operational savings while making dramatic improvements in measures of policing service quality.

Political and bureaucratic resistance is often responsible for the failure of governments to enact the changes needed to return to balanced budgets. While Canada has yet to face the same crisis that is currently rattling Europe, the long-term implications of these structural deficits cannot be ignored. Canadians, their political leaders and officials must summon a sense of urgency in order to meet future fiscal challenges head on.

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