



LESS BUT BETTER GOVERNMENT

A Metropolitan Halifax Chamber of Commerce Position Paper

on how to

Cut Smart, Pay Less and Reinvest in our Priorities.

February 22, 2000

Executive Summary

How to Cut Smart, Pay Less and Reinvest in Priorities

We all know that our province's spending is out of control. We have run consecutive deficits since 1976 and now face a total provincial debt upwards of \$11 billion.

Voluntary Planning has now released a final report which, in the words of the headlines the next day, "backed off" from the hard fiscal choices reflected in the preliminary report. The Chamber strongly believes that Nova Scotia cannot back off.

We have an opportunity to refocus and restructure the way government delivers services - we cannot afford to waste it.

Government should eliminate all direct business subsidies. The government should also immediately exit its non-core functions including: commercial for-profit enterprises like the Nova Scotia Liquor Commission, provincial hotels and resorts, Nova Scotia Resources Ltd., and SYSCO.

The number of Boards, Agencies and Commissions for example, should be reduced by 50% or more and the number of provincial departments reduced through mergers that reflect government priorities and common themes.

A government that cuts smart, pays less and reinvests in priorities will result in job losses, but fewer government jobs is a good thing. A growing private sector and private sector jobs will more than compensate for public sector cuts. In fact, the private sector in Atlantic Canada absorbed all of the government job losses of the early 1990s and created 32,700 additional new jobs.

We need to introduce private sector creativity into this process through competitive bidding to provide non-core services. This will broaden the pool of ideas beyond that available through more traditional government approaches to divestiture and out sourcing and achieve the greatest possible latitude for transferring financial risk to the private sector.

The government must begin a concerted effort to get out and let the public know the kind of change that is underway. It is inevitable that vocal opposition to any change will materialize. The key is to keep the public well informed and onside with the objectives.

The idea that tax increases can be used to facilitate our move to a more fiscally secure future is short-sighted. Our province does not have a revenue problem, we have a spending problem. With recent tax cuts in other provinces and indeed, in other countries, pressure for competitive personal and business taxes will not go away. Nova Scotia cannot afford to go against the downward trend and increase taxes.

The time to act is **now** in order to restore our province's fiscal viability and secure its long-term economic and social health Nova Scotians need to **collectively pursue** the opportunity before us with the greatest possible vigour and determination.

Background

The Metropolitan Halifax Chamber of Commerce is a voluntary, not-for-profit organization that benefits Metro Halifax and the Atlantic region by providing vital leadership to build a stronger community. The Chamber is a lobby and advocacy group acting on behalf of more than 1,800 corporate and 2,600 individual members; our chief communications vehicle is Business Voice magazine.

The 1,800 corporate members of the Chamber employ over 50,000 people, representing more than one quarter of Metro Halifax's labour force of 194,000. As the voice of business, the Chamber works on behalf of small businesses and large corporations alike. Seventy-eight per cent of Chamber members are organizations with 25 or fewer employees. The Metropolitan Halifax Chamber of Commerce has the largest membership of any chamber in the Atlantic Provinces and is the largest in Canada among mid-sized cities. It is also the oldest Chamber in North America -- celebrating 250 years in the year 2000 -- and was the first certified to the ISO 9002 international standard of quality.

On November 22, 1999 the Metropolitan Chamber of Commerce made a submission to Voluntary Planning calling for immediate steps to put Nova Scotia's fiscal house in order. In a January 10, 2000 letter to Allan Shaw, Chair of the Voluntary Planning Fiscal Management Task Force, we applauded the direction of the Task Force's preliminary report and encouraged them to recommend in the strongest possible terms the need for determined political will to make the changes required. In a speech to our members on January 27, 2000 Chamber President Murray Coolican publicly called on the Premier to show strong leadership, make government smaller and deal with the threat to our financial future.

Voluntary Planning has now released a final report which, in the words of the headlines the next day, "backed off" from the hard fiscal choices reflected in the preliminary report. The Chamber strongly believes that Nova Scotia cannot back off. Our elected representatives, whether they are in government or opposition, need to demonstrate strong leadership and make the hard choices about what government **MUST** do and recognize that everything else is a drain on scarce resources.

Take Action

The Chamber believes that the Province of Nova Scotia has before it a rare opportunity to redefine government's role. It is time now for government to shed non-essential services and refocus on the core needs to which government must, for the public good, dedicate all its efforts and resources.

At his State of the Province address last year, the Premier summed up our current situation with the words: "the economy of Nova Scotia is in good shape, the government is not." The Metropolitan Halifax Chamber of Commerce fully agrees with this assessment and is concerned that the government may squander this valuable opportunity to take significant action to begin streamlining government operations. Our debt is now almost \$11 billion and is rising at the rate of \$1,000 per minute. It is past time to act.

To eliminate the deficit and establish the financial viability of our province the government must:

- 1) Act immediately and with determination
- 2) Exit effectively from non-core activities
- 3) Improve the delivery of core functions
- 4) Use the potential of the public service to greatest advantage
- 5) Engage the private sector
- 6) Implement a clear and concise communications strategy

1. **Act immediately and with determination**

We have an opportunity to refocus and restructure the way government delivers services - we cannot afford to waste it. The government should take immediate steps to implement some of the opportunities for savings that have been identified by the Voluntary Planning process and the internal program review. More importantly, these changes need to be shown to the public as positive steps towards a secure future.

This problem will not get better on its own. Growth in our spending continues to outpace revenue growth. Just this year, we have added another \$500 million to our collective debt. In the past seven years, every Nova Scotian has seen their share of the provincial debt rise by \$2,000. In health care alone, since 1996 total spending has gone up by over \$400 million despite federal cutbacks. Our economy is growing at 2.9% a year; health spending is growing at around 11%. Even if we spent every cent of new revenue on health care, we could not keep up with this growth.

Nor will an influx of federal cash address this imbalance. Even if the federal government made up the \$384.5 million Nova Scotia over spent on Health and Education in the last two fiscal years, we still would have run up another \$163 million in debt based on overspending in at least six other departments.

The Chamber has been a strong advocate of the need to tackle the debt and deficit through getting control of our spending. Some have suggested that more revenue, or raising taxes is a part of the solution. **The Chamber totally rejects the notion of tax increases to fight the deficit.** Tax increases will not work and will signal an inability to tackle the fundamental weaknesses in our system. We do not have a revenue problem; we have a spending problem.

2. **Exit effectively from non-core activities**

A critical component of this process is to develop an overall Strategic Plan for the direction of the Province. In the absence of this Plan, the identification of core and non-core government functions will be that much more difficult. However, preparation of such a plan, while very important, cannot be allowed to delay action in the short term. We need a two-step planning approach. First, a rough plan for immediate action on obvious desirable initiatives. Second, preparation of a detailed plan, such as that in place in Alberta, within six months.

Government should immediately:

- ▶ eliminate all direct business subsidies. This means no more operating subsidies,

loans or loan guarantees from the province, regardless of the recipient, industry sector or geographic location.

- ▶ sell commercial enterprises like the Nova Scotia Liquor Commission, provincial hotels and resorts, Nova Scotia Resources Ltd., and SYSCO.
- ▶ reduce the number of Boards, Agencies and Commissions by 50% or more.

As a starting point for the longer term plan, the Chamber generally agrees with Voluntary Planning that the “core” functions of government are:

- ▶ policy and planning
- ▶ strategic investment (in infrastructure only)
- ▶ legislative/regulatory oversight
- ▶ standards and measurement
- ▶ quality control/audit
- ▶ accountability/reporting
- ▶ delivery of only those public services deemed essential

We also support, in principle, the process outlined by Voluntary Planning for determining the core and non-core functions of government and, in turn, government departments, agencies, boards and other entities. We would like to emphasize, however, that, unlike the Voluntary Planning model, we do not advocate the maintenance of non-core functions within the provincial budget based on a value determination. **Government should only do that which it is deemed absolutely necessary for it to do, and that which cannot be done by any one else.**

3. Improve the delivery of core services

Meaningful action should also be taken to improve efficiency in the delivery of core functions either by identifying and eliminating non-core support services or by finding alternative ways to deliver core services to the same, or better, standards.

It must be recognized that while a function or service may be designated as core, many of the services that support it are not and could be out sourced. The core/non-core analysis must be applied at the Department level and below. Government must seek out services within core functions, inside hospital and school operations for example, that do not have to be delivered directly by government.

For instance:

- ▶ central administrative services, like payroll
- ▶ processing, printing and issuing permits and licenses
- ▶ Transportation Department vehicle fleet for plowing and road maintenance

- ▶ ownership and maintenance of public office buildings
- ▶ property assessment (could even consider monitored self-assessment)
- ▶ land registration and other information management services

The government should merge like functions into a smaller number of departments. Some combinations to explore include:

- ▶ Agriculture & Marketing, Fisheries & Aquaculture and the non-energy sectors of Natural Resources into a Resource Ministry;
- ▶ the energy-related sectors of Natural Resources and the Petroleum Directorate into an Energy Ministry;
- ▶ Business & Consumer Services, Economic Development, Tourism and the numerous business inspection and standards sections from other departments into a Business Ministry;
- ▶ Human Resources and Labour into a Labour Ministry.

Overlap across governments also needs to be eliminated. The administration of grants to municipalities, for example, could be streamlined. Similarly, now that the Department of Education, site-based community committees and school principals are managing the delivery of the provincial curriculum, regional school boards should not be necessary.

Obviously, where commercial value exists in a non-core function, the Province must ensure that fair market value is received when the asset is divested. At the same time, while looking at where savings can be achieved, we should also be looking at where reinvestment is possible. As an example, the government could consider the use of the surplus in the teacher's pension fund to support an early retirement package for older teachers. In their place a larger number of younger teachers could be hired, resulting in a reduction in class sizes and an influx of new ideas into the system.

4. **Engage the public service to greatest advantage**

A government that cuts smart, pays less and reinvests in priorities will result in job losses, but fewer government jobs is a good thing. A growing private sector and private sector jobs will more than compensate for public sector cuts. In fact, the private sector in Atlantic Canada absorbed all of the government job losses of the early 1990s and created 32,700 additional new jobs.

Everyone must recognize, however, that the public service is the prime mover in improving productivity and reducing the overall cost of government. The full potential of the public service as a force for change can only be realized if:

- 1) The mitigation of the negative impacts of change on the public service is a central theme in selecting and moving forward with change and,
- 2) Public servants are empowered and made accountable for identifying necessary changes and making them work.

Public servants should be rewarded for achieving savings within their scope of responsibility and

accountability and empowered to implement those changes. Hiring freezes, limits on salary growth and forced leave arrangements, while supplying impressive numerical improvements to the bottom line, on their own, will do little to stimulate innovation and commitment to the task at hand.

The Chamber fully endorses the suggestion that a core group of senior public servants be brought together to manage the introduction of appropriate fiscal management across the government. We would go further - in place of the traditional departmental budgeting exercise we would argue that the Cabinet and senior public servants from each department should be brought together as a group to develop the budget plan together. Decisions on core and non-core functions, and how to address the impacts of exiting non-core activities, should be made without the obscured view provided by departmental walls.

To support the management effort, government must supply clear and measurable goals for the core functions and essential services that are maintained. Efficiency is not simply the elimination of cost but the achievement of a particular goal at the least possible cost. You cannot manage what you cannot measure. Many output models exist that could be copied or amended for our use, including one that was created for Nova Scotia in the early 1990s. The problems we face are being faced elsewhere. We should take the best of the solutions to be found through looking at the experience of others and apply them here.

5. Engage the Private Sector

If a service or program is not a core function of government then a suitable exit strategy should be developed and implemented. In developing exit strategies the government needs to adopt an open Request for Proposals (RFP) approach which would create an ongoing process of public collaboration on ways to provide non-core services to the public. In assessing the proposals that come in, the government must be guided by the following objectives, in order of priority:

- 1) achieving the maximum reduction in the provincial debt
- 2) achieving the minimum future fiscal exposure from the exit
- 3) mitigation of any negative impacts on workers.

The use of an open RFP approach offers the broadest avenue to identify workable exit options with the highest likelihood for success. The introduction of private sector creativity through competitive bidding will broaden the pool of ideas beyond that available through more traditional government approaches to divestiture and out sourcing. RFPs also offer the government greater flexibility in terms of managing effective exit strategies and defining the success factors of those exits. Furthermore, with access to competing bids, the government will achieve the greatest possible latitude for transferring financial risk to the private sector.

6. Implement a clear and concise communications strategy

It is critical for the Premier to demonstrate strong leadership in supporting the necessary changes and maintain Cabinet and Caucus solidarity. The government must begin a concerted effort to get out and let the public know the kind of change that is underway. It is inevitable that vocal opposition to any change will materialize. The key is to keep the public well informed and onside with the objectives.

It is clear that government must redefine itself and refocus its limited resources. Nova Scotians must understand why our situation is critical and that there is a plan to bring our finances under

control. They must have a good understanding of what is to be gained from success and what the real implications of failure are. Nova Scotians need to hear real life descriptions of what success looks like and what failure will look like if this strategy is not implemented. The public must have confidence that the senior managers of government, both elected and non-elected, are committed to and will be held accountable for achieving the goals.

Conclusion

Voluntary Planning correctly pointed out that this is not a political question. Whether you support an activist government or feel that government needs to take a back seat, you can agree that we must be in control of our financial future. To control our future we need to control our present - this means cutting 16% of our spending in the next two years just to achieve a balanced budget. This means achieving a sustainable debt to GDP ratio more in line with, or better than, the national average.

It is important to recognize that these changes will not happen in a vacuum. The idea that tax increases can be used to facilitate our move to a more fiscally secure future is short-sighted. Our province does not have a revenue problem, we have a spending problem. With recent tax cuts in other provinces and indeed, in other countries, pressure for competitive personal and business taxes will not go away. Nova Scotia cannot afford to go against the downward trend and increase taxes.

The time to act is **now** in order to restore our province's fiscal viability and secure its long-term economic and social health. You, your government, and the public at large will be hearing from us and our members as we press home the critical situation our province faces, the great opportunity we have before us, and the need to **collectively pursue** that opportunity with the greatest possible vigour and determination.

If you have any questions about the above report or require further information, please contact Nancy Conrad, Policy Manager, Metropolitan Halifax Chamber of Commerce at 468-7111 or nancy@halifaxchamber.com.