

The Future of Federal & Provincial Government: 2007-2017

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Introduction To The Study

"How will the public sector change over the next decade?" was the theme of this study. In this brief report, we look at the answers for one part of the public sector, namely, federal & provincial government.

Our study relies on face-to-face structured interviews with 120 opinion leaders from across the country. Some 56 of these respondents came from healthcare. Others come from federal-provincial government (15), municipal government (15), public education (16) and post-secondary education (17). Each opinion leader interview took about 90-120 minutes.

Opinion leaders are the people who make the future happen. Because of their leadership role, their views of the future are more accurate than others. The most critical part of the study is identifying the 'right people' as opinion leaders. If this is not done properly, then the logic of the entire process falls apart.

We began by identifying people regularly named in articles, publications and speeches. We interviewed these people and asked them who they felt were opinion leaders. We continued interviewing until we got agreement on which people to interview. A list of the opinion leaders for federal & provincial government is appended.

At the end of the study, we were quite impressed with the dedication and talent of the people we interviewed. We learned to recognize that the public sector must manage in an environment that is more complex than the private sector. Objectives are inevitably at odds with the desires of some citizens, yet the public sector consistently aims to improve public well-being in the ways that are within its means.

On behalf of the Royal Bank of Canada, we thank all of the opinion leaders for their commitment to the public service and their willingness to share their views with others.

As a final note, we must point out that this report summarizes what opinion leaders say and does not represent the views of the Royal Bank. The authors are writing as "independents". They have no vested interest in the opinions other than portraying them accurately. They are simply seeking to identify common views of the future and their logic.

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Overview of Findings

Looking at the next decade, we see three main stages of change.

- **Re-focus:** Identify societal priorities and focus resources across organizations and supporting stakeholders;
- **Realign:** Change channels for delivery of services within and across organizations (and levels of government), as well as changing the source of funding; and
- **Integrate:** Coordinate, participate and share responsibility across organizations – both formally and informally.

"**Re-focus**" refers to setting priorities based on society's needs, then planning how to get things done. These plans are likely to include coordinated action by different departments in the federal, provincial or municipal government. There are four key "re-focus" themes for the next decade.

- Demand, supply and access management;
- Accountability focused on achieving results;
- Community engagement that seeks the views of stakeholders and involves them; and
- Leadership in meeting priorities and finding funding.

"**Realign**" means that government will change the way it delivers services, as well as changing the sources of funding it uses to get priority jobs done. Service delivery of common functions will typically be provided by one organization which serves the needs of several departments in the same level of government, or in the case of delivery of services to the public, it may provide service for federal, provincial and municipal government combined. This might well include delivery of services like health care, land use or environmental clean-ups, which fail to conform to pre-set political boundaries.

How is Federal-Provincial Government Changing

The past decade was characterized by massive staff cutbacks and agency closings. To improve its own economic health, responsibilities were effectively downloaded to lower levels of government without providing funding commensurate with these responsibilities. It sometimes proved necessary to establish regional authorities in an effort to focus resources at an appropriate level of geography for a problem (e.g. health care priorities, environmental problems, transportation, etc.).

Federal and provincial governments adopted several strategies to improve efficiency and deal with funding shortfalls. Shared Service Organizations (SSO) were formed that provided common non-core services (e.g., IT, purchasing) to all departments. There was more outsourcing and contracting to lower labour costs and capital expenditures. Public-private partnerships (P3) became a major vehicle for funding infrastructure, but with mixed success.

Over the next decade, we will see more integration of federal and

provincial government activities with those of regional and municipal government organizations. Streamlining activities (SSO, contracting, etc.) will continue in response to shortages of skilled professionals. Infrastructure initiatives will increasingly be P3-based, and when senior levels of government do provide funding, they will want clear visibility. There will be fewer free “universal” services and government will be looking for new sources of revenue, including fees for premium services.

Overview of Findings *continued*

These services may be delivered by multi-level government organizations, new agencies, private sector contractors, joint public-private partnerships or volunteers.

The biggest challenge for realigning service delivery is the willingness to share resources across organizations to effectively deliver solutions for complex problems, especially when “resources” are the basis of power. There are three progressive themes for government when it realigns are: (i) Partnerships; (ii) Working around funding shortfalls; and (iii) Integrated action between different organizations.

“**Integration**” is a strategy for responding to complex problems that cannot be solved within a single organization. New organizations may not be practical because the focus of coordinated action may be too narrow or time-limited. Essentially “integration” means managing across organizational and stakeholder boundaries.

When we talk about “integration”, we are not talking about forming a single command and control structure. Each organization retains its own distinct identity, distinct management, and distinct balance sheet. We are talking about nego-

tiated, flexible and rapidly-changing integration. This is a mixture of coordination of selected organizational activities, joint participation in those activities (and only those activities) that are mutually beneficial, and shared responsibility for achieving outcomes in those areas alone.

“Critical aspect is coordination and cooperation across all levels of government.”

FORCES AT WORK

In demographic terms, there are three main forces at work: immigration, urbanization and an aging population. While all sectors have had difficulty adapting to changes in service demand, the main impacts of each demographic force are:

- **Immigration:** Increase in urban populations; more demand for special services; and demand for culturally-sensitive services.

- **Urbanization:** Increasing urbanization creates shortages of low cost housing; problems of sustainability; increased competition for skilled professionals to fuel economic growth; and a shortfall in needed services for aboriginals and recent immigrants.

- **Aging population: The biggest impact is a shortage of skilled professionals fueled by retire-**

ments. An aging population also heightens demand for health, social and recreational services. At the same time, the aging population is the largest source of volunteers.

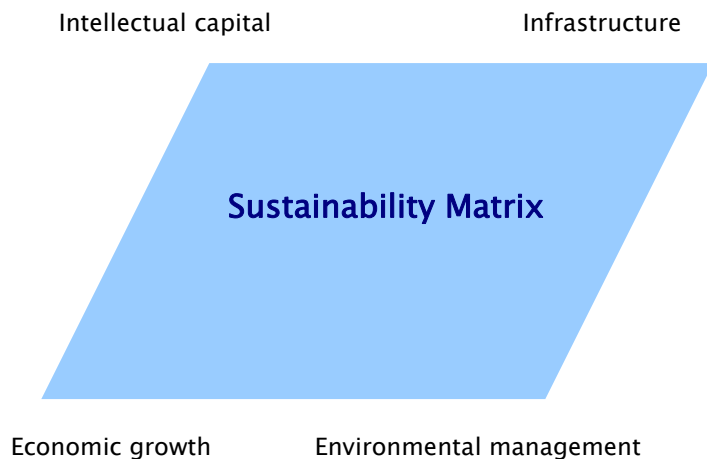
The shortages in labour are mainly in skilled trades, professions, and senior management. Shortages are also due to heightened demands that cannot be entirely

funded by government. Outsourcing and contracting have been the response to government labour shortages so far. In the future, there will be more effort to teach people to help themselves.

Sustainability

Sustainability deals with our ability to meet the needs of the present without sacrificing our future. The main sustainability issues are creating infrastructure to meet basic societal needs, economic growth and achieving these things without undue environmental impact. Many of the sustainability issues are urban issues, but land and water usage issues are major concerns for Canadians in agricultural areas too.

For urban areas, sustainability is built on four pillars: intellectual capital, infrastructure, economic growth, and environmental management.



With shortages in professionals, economic growth is dependent upon a city's ability to attract professionals. Infrastructure and a pleasant environment are key to attracting professionals. The economic growth provides the funding to help better manage the environment. It also reinforces the city's ability to attract professionals who can develop innovative ideas for environmental management.

The inter-dependence of these four pillars of sustainability has led to the "branding" of cities. Every major Canadian city is investing in establishing itself as a desirable place to be and each will take a unique approach. Creating a reality behind the brand takes money – typically more than the municipality itself can afford. Other levels of government and the private sector are often asked to step-in and play a role.

Demographics and sustainability are the core of the political pressure for change. Public pressure not only dictates priorities, but increasingly asks government of all types to be accountable for its achievements. A process that appeared to work was sufficient in the past. Now, boards are asking organizations to define: the benefits they will achieve, who will benefit, how much benefit will be produced, when the benefit will be achieved,

and how much it will cost. Accountability is becoming better defined for top priorities, even if it remains "fuzzy" for the lower priorities.

Technology is less a force for change now than an enabler of change.

While technology has raised the demand for new ways to deliver services, many of the online solutions are already implemented and more are likely to follow.

Technology has allowed government to provide its services in a more streamlined, efficient and coordinated manner. We can certainly expect to see technology play a bigger role in delivery, as labour shortages make it necessary to push people to buy online or else pay a premium for face-to-face service at a counter. Online and telephone advice will also take the place of some face-to-face advice provided now.

What we have learned about technology in the past decade is that the equipment is cheap. Development and operating costs are far higher. In fact, technology has made some services more expensive by raising demand and expectations for service. In short, we have learned that the impact of technology is seldom as simple or cost-effective as it appears at the outset. We will certainly see this new notion repeatedly played out in health and education in the years to come.

"Attention to governance is creating a ton of unenforceable rules"

HOW THINGS WILL CHANGE

There are seven changes that affect all parts of the public sector. The four changes in the inner circle are core changes that respond to the forces at work in the public sector environment. The three outer changes are basically strategies that will help deal with the four core changes. All of the changes are shown in a circle because they affect one another and there is really no single starting point or end-point. The four core changes, in an order that seems logical to us, are:

1. Change the services you provide in response to changes in demand and supply arising out of demographic shifts.
2. Change the method of delivering services in order to compensate for the shortage of

The Opinion Leaders



people available to deliver public services. Typically this means outsourcing, contracting or converting services to online self-service in order to reduce the labour required.

3. Find new revenue sources to fund priorities.
4. If you don't have the revenue you need after funding your priorities, let others fund their own priorities.

Top 5 Changes In The Sector

Provincial and federal government interviews were grouped together in a single report. The major changes reported here characterize both senior levels of government. As we see it, their top five changes are as follows.

1. **Creation of agencies and partnerships** that cross ministry and federal-provincial-municipal lines. New agencies will often serve a common function required by all levels of government. (i.e. inspection of food.)
2. **More public payment** for services – less universality.
3. **Increased regionalization** of activities, where a region is identified to match the issue being tackled. Thus a healthcare region will be different than an economic development region, which in turn, may differ from an environmental region.
4. **Growth in "life-cycle" P3 initiatives.** Public-private partnerships will extend past the construction phase of an infrastructure project, potentially including day-to-day operation, ongoing maintenance and repair.
5. The public sector will have **fewer employees, but more of them will be skilled professionals** and they

To make the core changes practical, a government must:

5. Use technology to lower costs and achieve results.
6. Measure results and fund organizations that are successful at achieving the results you want.
7. Build new integrated structures that help solve problems or deliver service in a cost-effective manner. These structures can cross departments or different levels of government. Sometimes they are informal coordination, sometimes they are formalized, and shared responsibility for related action on a common problem, and other times the structures will be new special-purpose agencies.

will be better paid. The smaller number of employees is a response to the growing labour shortage for the public sector. Their skill level and pay reflects the trend away from directly delivering services to being a developer and manager of service contracts.

To provide a direct sense of what opinion leaders are saying, we include a few selected comments from federal, provincial and municipal opinion leaders.

"P3 are dangerous as an ideology, when government lacks expertise. They need to be true partnerships, not just contracting out. Private sector brings a clarity of expectation that can help government."

"Critical aspect is coordination and cooperation across all levels of government."

"Most (internal) government initiatives will focus on increasing the supply of labour."

"Aboriginal housing authority to create and manage housing... it is happening now and will increase."

"One-third of government time is spent in accounting for the other two-thirds."

Finally, we would like to thank the opinion leaders who spoke to us about changes in federal and provincial government. Those speaking about health, education or municipalities are identified in those reports. We identify the opinion leaders based on where they were working when we interviewed them in late 2006 or early 2007. Their current position and title cannot fully convey the depth of their prior experience, which is often a key factor in their selection.

In alphabetical order, the opinion leaders are:

· **Dr. Peter Aucoin**, Eric Dennis Memorial Professor of Government and Political Science, Professor of Public Administration, Dalhousie University;

· **Tony Dean**, Government of Ontario, Secretary of the Cabinet, Head of the Ontario Public Service;

· **Michelle Di Emanuele**, Government of Ontario, Deputy Minister, Ministry of Government Services, Secretary to Management Board of Cabinet;

· **Brenda Eaton**, Chair, BC Housing Management Commission;

· **Dr. Pierre Fortin**, Professeur, Département des sciences économiques, École des sciences de la gestion, Université du Québec à Montréal;

· **Dr. Roger Gibbins**, President & CEO, Canada West Foundation;

Richard Gladue, Government of Saskatchewan, Deputy Minister, First Nations and Métis Relations;

· **Dana Hayden**, Government of BC, Deputy Minister, Strategic Policy, Office of the Premier (on behalf of **Jessica McDonald**, DM to the Premier);

R.J. (Ron) Hicks, Government of Alberta, Deputy Minister, Executive Council;

David Lindsay, Government of Ontario, Deputy Minister, Ministry of Tourism;

Dr. Jack Mintz, Professor of Business Economics, Rotman School of Business, University of Toronto;

Dr. Al O'Brien, Department of Economics, Institute for Public Economics, University of Alberta;

Caroline Oliver, Governance Consultant,

Chris Trumpy, Government of BC, Deputy Minister, Ministry of the Environment; and

Tamara Vrooman, Government of BC, Deputy Minister, Ministry of Finance.