Case study: Reducing costs, increasing efficiency for the Government of Canada

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In 2011, facing a large deficit, the Canadian government announced an effort to cut spending and increase efficiency via a comprehensive one-year Strategic and Operating Review (SOR) that asked more than 60 departments to propose cost reduction measures. Deloitte Canada assisted in the development of an analytical framework to assess these proposals. The framework greatly reduced the committee’s review time and ensured that spending goals were met. The Canadian member firm also provided insights on best practices and offered an independent perspective on cost-cutting measures. As a result of the review, the committee proposed a range of cost reductions realized from improved productivity and performance, including savings from increased use of technology, standardization of systems, and service consolidation.

The situation
Like many countries around the world, Canada is struggling to reduce spending. With its federal government debt more than a third of national GDP in 2010, the government announced in Budget 2011 a comprehensive one-year Strategic and Operating Review (SOR) to assess spending across the federal government. With the aim of returning the country to a balanced budget by 2014-15, SOR focused on reducing operating expenses and improving productivity as well as reviewing the effectiveness of a range of programs equaling CA$80 billion of direct program spending. The goal of SOR was to reduce ongoing expenditures by at least CA$4 billion by 2014-15—upwards of 5 to 10 percent of the review base—across 67 departments and agencies. In response, departments were asked to prepare cost reduction submissions.

The government was looking for ways to improve service delivery by examining government-wide solutions that would standardize, consolidate, and re-engineer processes. This would involve enabling departments and agencies to find efficiencies through shared services arrangements as well as the transfer of functions.

The Prime Minister of Canada established the Strategic & Operating Review Committee (SORC) led by the President of the Treasury Board to assess SOR proposals put forward by ministers and their departments. Budget 2011 further announced that SORC would be guided by private sector advisors. An independent view of cost reduction methodologies from outside of government would provide critical insight into what strategies had proven successful in other jurisdictions as well as operational support as the committee approached this ambitious review.

“The fact is that we feel we need to have outside advice,” Finance Minister Jim Flaherty told the Globe and Mail in September 2011. “It isn’t good, quite frankly, for a government to just look at itself. There’s a lot of expertise in Canada on the subject of public sector productivity …”

The solution
The Canadian government engaged Deloitte Canada as independent advisors to help guide SORC as it reviewed cost reduction submissions. Leveraging Deloitte member firms’ knowledge of both public and private sector best practices, SORC worked to identify how the Canadian government could create “lean” processes for operations and administration within the departments and agencies targeted for cost reduction.

Implementing an enterprise service delivery model is often difficult within the vertical structure of government, where accountability is generally organized by department. To address this, consistent and transparent communications were developed to help familiarize public servants and elected officials with the goals of the committee. A vertical and horizontal approach to savings opportunities was also employed so that impacts could be clearly identified. Vertically, efforts were structured according to four program sector areas—economic; social and cultural; international affairs, security, and justice; and government operations. Cutting across
these areas were a few main targets for improved efficiency and lean processes—service delivery, information technology, procurement, and capital asset management.

An analytical framework was developed to review proposals submitted by the departments, drawing on Canadian and international private sector and government advisory experience and best practices. The framework was based on a hypothesis-driven process that analyzed cost savings opportunities and assessed the potential for efficiencies, using inputs from ministers, public servants, and SORC members to develop savings propositions. These would then be evaluated to assess their validity. The cost saving proposals submitted by the departments were then compared to the hypotheses that had been developed to determine if all avenues for savings had been reviewed. This streamlined process allowed the committee to focus quickly on key opportunity areas as well as prioritize data and analyses requirements and tie those analyses to specific improvement opportunities. The process also greatly reduced the time it took for the committee to come to solid conclusions and ensured that every savings opportunity was mapped to spending goals.

For the cross-cutting streams—service delivery, information technology, procurement, and capital asset management—teams were built to review government-wide processes and structures and identify areas where further analysis might reveal savings opportunities. Like the departmental reviews, the cross-cutting teams also used a hypothesis-driven approach. However, in order to identify themes for longer-term transformational recommendations that delivered sustainable cost savings and revenue production, the cross-cutting teams could identify potential savings and revenue-generating opportunities beyond the three-year SOR timeline.

Deloitte teams were available to support departments and agencies in the development of cost-reduction proposals not within the original scope, provide training, or supply other support necessary to reach the goal of the SOR cost reduction effort. As part of the overall process, critical success factors were identified and designed into the cost-reduction approach. These included setting cost-reduction targets high—with the expectation that there would be some “leakage” along the way—and developing clear rules and processes about what can be considered for cost-cutting. Also, to move cost reduction forward, efforts focused on finding savings “boulders”—that is, large opportunities for savings—and honed in on what is realistic and implementable.

The team spent from August 2011 to March 2012 supporting the committee as it evaluated the best cost-savings opportunities. To help the team, the Canadian member firm put together a panel of advisors that could offer additional support at key intervals in the project. This panel worked to enrich the executive-level dialogue and contribute to more meaningful results by serving as an advisory body for the SOR Committee, individual ministers, and other senior leaders. The panel also provided insights on best practices and offered an independent perspective. The members of the panel were from multiple jurisdictions and included both Deloitte and external leaders with a wealth of experience in large-scale cost reduction.

In addition to members from the Canadian member firm, the team comprised practitioners and project leaders from the U.S. member firm, who provided knowledge on private sector cost reduction and insights from their work for U.S. agencies, such as the Department of Defense. A truly integrated, cross-border effort, the project ultimately drew on the expertise of more than 120 practitioners from across multiple levels and service lines.

The outcomes

As a result of the Strategic and Operating Review, individual ministers and senior public servants successfully assessed their internal services and costs for administering programs for cost reductions. The committee sought reductions in operating costs realized through greater efficiencies in government operations, such as improved productivity and performance and the elimination of non-critical activities or requirements. This also included savings from increased use of technology, standardization of internal and client-facing business systems processes, and service consolidation and clustering.

There are several examples of such cost reduction efforts and improved efficiency in the 2012 budget:

- Department of National Defence: improvement and streamlining of procurement and contracting as well as centralizing the department’s property management and centralizing and enhancing its human resources management.
- Health Canada and the Public Health Agency of Canada: merging the back office functions of these entities and transforming grants and contributions management.
- Department of Fisheries and Oceans Canada: announced changes to streamline and modernize, including transferring some in-house programs to advisory groups and universities.
- Library and Archives Canada: digitizing parts of its collection in order to give greater access while saving money.
- Public Works and Government Services Canada: recapturing real property in response to reduced needs, with new standards targeting a 10 percent reduction of total amount of space for office facilities.
- Atlantic Canada Opportunities Agency: transferring funding from regional economic development groups to direct investment in small- and medium-sized businesses and communities to support economic growth and job creation.

“This kind of review is not just about finding savings per se … it is also a tool by which we can help to modernize government," says Treasury Board President Tony Clement. "We have to ingrain this idea of efficient and constrained use of tax dollars on a day-to-day basis at every level— from the politician all the way down to the proverbial mail clerk …”

3. Ibid
4. Ibid

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