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From: Michael Wernick
To: Public Service Observers
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Re: **UNLOCKING PRODUCTIVITY IN THE PUBLIC SECTOR: FOCUSING ON INTERNAL SERVICES**

It is difficult to have a wide-ranging, national conversation about having a more productive economy without touching upon the public sector's role and its efficiency. We should delve deeper than fiscal analyses of costs, assets, and liabilities and focus on the internal mechanisms that drive government efficiency across all levels, from federal to municipal and Indigenous governments.

In Canada, the public sector is vast and diverse. Half operates across provincial, territorial, regional, municipal, and Indigenous governments. Approximately 60 percent of federal public service employees work outside the Ottawa-Gatineau capital region. In every province, close to one-fifth of the labour force is employed in the public sector. This widespread presence means that enhancing productivity isn't just a concern for "Ottawa."

Historically, productivity assessments in the public sector have started from a fiscal perspective. Spending reviews focus on cost inputs, aiming to reduce expenditures without necessarily considering the effectiveness of outputs. While such reviews are essential, they often miss the mark on evaluating actual performance and service delivery.

Efficiency reviews, which measure outputs per unit of input, offer a slightly better lens by assessing how many services are delivered relative to the resources used. However, they still fall short in capturing the qualitative aspects of public services, such as customer satisfaction, accuracy, and long-term outcomes.

One significant hurdle is the difficulty in defining and measuring certain government functions. For example, roles related to national security, defence, and public safety involve managing risks and preparing for low-probability but high-impact events like pandemics or natural disasters. Quantifying efficiency, let alone satisfaction, is inherently challenging.

Many government outputs take the form of information: Weather forecasts, statistical data, advice to businesses and citizens, economic forecasting and more. Internally, public service units generate legal advice, costing, risk assessments, policy analysis, communications services and support for ministers. Here, the relevant measures are quality and timeliness, which are elusive to quantify.

Similarly, functions that involve intergenerational stewardship – like conserving natural resources, preserving cultural heritage, and investing in research, education and public health – do not lend themselves to straightforward productivity metrics. The benefits of these efforts may not be immediately visible but are crucial for future generations.

My view is that the most significant current opportunities for improving productivity lie within the internal "government-to-government" (G-to-G) services. These are the support functions that enable both frontline services and advisory services for democratic governments to operate effectively, and they often lack visibility and champions.

Enhancing productivity in G-to-G areas could lead to substantial gains in agility and efficiency. For instance, leveraging artificial intelligence in human resources could dramatically reduce the time it takes to fill vacant positions. Streamlining internal processes would not only make the government more efficient but also improve its ability to respond to emerging challenges.

Several interrelated factors impede productivity in the public sector:

- **Barriers to Internal Mobility:** Outdated human resource management practices and tools hinder the efficient reallocation of talent where it's most needed.
- **Underutilization of Resources:** Many employees aren't fully trained to utilize the tools and technologies available to them. Additionally, systems like sick leave are outdated, leading to inefficiencies.
- **Underinvestment in Core Systems:** There is a chronic lack of investment in information management systems, which are essential for effective decision-making and operational efficiency.
- **Underinvestment in Training and Management:** A failure to fully develop managerial acumen and to help them keep up with change hampers the ability to implement and sustain productivity enhancements.

Lack of Data-Driven Decision-Making: Without robust information systems, middle managers too often lack the timely data needed to make informed decisions, leading to suboptimal outcomes.

As the public sector becomes better at delivering programs, there's a tendency for governments to introduce more specialized and complex services. While customization can improve service delivery, it also adds layers of complexity that strain existing delivery systems. For example, the immigration system now manages more than 50 distinct pathways, and the employment insurance system has more than 20 different benefit streams.

Addressing productivity isn't just about streamlining processes; it's also about tackling program sprawl and complexity. Simplifying or consolidating programs where possible can lead to more efficient service delivery, but citizens and stakeholders will continue to expect and press for a high degree of customization.

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Achieving meaningful and lasting productivity gains requires sustained political leadership and investment. Governments often struggle with attention deficits, shifting focus before reforms can take root. Short-term cutting often has unintended consequences. To overcome this, there must be concerted efforts and compromises across the political spectrum.

Progressive voices ought to acknowledge that technological advancements and efficiency improvements may lead to job disruptions and losses, and prepare strategies to manage this transition to a smaller, leaner public sector compassionately. At the same time, conservative voices should recognize the necessity of investing in state capabilities, even if it involves upfront costs and the persistence to carry through structural reform.

Overcoming resistance – from unions wary of job losses to lobbying groups protecting the status quo – will be essential. Political leaders must be willing to prioritize long-term gains over short-term convenience.

Unlocking productivity in the public sector is a complex but essential task. By focusing on internal services and addressing systemic barriers, significant improvements can be made that benefit society as a whole. This endeavour will require political courage, sustained investment, and a willingness to embrace both technological innovation and organizational change.

To move forward, we need a collective commitment to reimagining how the public sector operates internally. By doing so, we can build a more agile, efficient, and responsive public sector capable of supporting democratic governance and serving Canadians as we meet today's challenges and those that lie ahead.

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