

# Economic Impact of Federal Workforce Reductions in Prince Edward Island

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## EXECUTIVE SUMMARY

Since the current governing federal party was elected in 2006, it has been the policy of the Government of Canada to actively pursue reductions in government expenditures with the goal of achieving a balanced budget by 2015-2016. Drivers of expenditure reduction have been:

- Strategic Review 2007;
- Strategic Review 2008;
- Strategic Review 2009;
- Strategic Review 2010;
- Personnel Budget Freeze 2010;
- Strategic and Operational Review 2011.

Expenditure reduction action plans developed between 2007 and 2010 have and will continue to be implemented through to 2013-2014. The 2011 Strategic and Operational Review culminated in the announcement in the 2012 federal budget on March 29 of an additional \$5.2-billion in permanent expenditure reductions between 2012-2013 and 2014-2015.

Expenditures that have been targeted are focused on direct operating costs and capital expenditures; transfer payments to other levels of government, organizations or individuals; and payments to Crown corporations.

On average, wages and benefits paid to federal employees represent 43% of the expenditure group above. Consequently, job cuts have been identified as a primary action step in reducing expenditures and it was announced in the 2012 budget that 19,200 federal jobs, or about 4.8% of the federal workforce, would be cut. These cuts will be in addition to any job cuts announced in prior expenditure reduction initiatives.

To date, limited specific details have been released about the geographic impact that federal job cuts will have. With the notable exceptions of Veterans Affairs Canada (VAC), Parks Canada in Prince Edward Island and Service Canada in Montague, more speculation than official confirmed numbers of job cuts exists.

In order to be better prepared for the federal government's ultimate expenditure reduction action plan, McInnes Cooper LLC was commissioned to more accurately estimate the depth and breadth of potential federal job losses in Prince Edward Island. Sponsors of the project are the Government of Prince Edward Island, the City of Charlottetown, the Public Service Alliance of Canada (PSAC) and the Professional Institute of the Public Service of Canada (PIPSC).

The scope of work for this assignment included:

- estimating the current size of the federal government workforce in Prince Edward Island;
- estimating a range of what the potential federal workforce job losses in Prince Edward Island may be; and
- estimating the provincial economic impact associated with potential federal workforce job losses.

The work was completed through desk research, key informant interviews, analysis and estimating, and the generation of provincial-level economic impact estimates by Statistics Canada using the department's input-output economic model.

Findings from this research will be used in developing strategic approaches to mitigating the impact that federal job losses may have on federal workers in Prince Edward Island, other residents of PEI and the provincial economy.

Some 35 federal government units (departments, agencies, crown corporations, etc.) have a staff presence in Prince Edward Island. In total, it is estimated that the federal government employs 3,827 individuals in the province in permanent positions. This ranges from government units with a 'handful' of staff (i.e., less than five), to Veterans Affairs Canada with approximately 1,400 staff.

The federal government's employment presence in Prince Edward Island is also impacted by non-permanent contract, casual and student hires. While the size of this cohort can vary significantly, primarily due to seasonal hiring, it is estimated that 700 or more positions annually could fall under the contract, casual and student categories. This group is significant as most collective agreements state that the employer should make a reasonable effort to replace non-permanent employees with displaced permanent employees under any workforce adjustment measures.

Different information sources indicate that the federal workforce has increased steadily since 2000 and peaked in 2008. Since 2008, there has been a slight decline to date in the size of the federal workforce in the province.

Overall, the federal government is the largest employer in the province next to the provincial government with an estimated 11,043 employees, inclusive of core government, health and education. With an estimated 72,200 employed individuals in Prince Edward Island, permanent federal government employees represent approximately 5.3% of the provincial workforce. The federal workforce in PEI also greatly exceeds any individual private sector or institutional employer.

Federal workers in Prince Edward Island represent a considerable economic force. In addition to the sheer number of employees, Statistics Canada data estimates that one federal full-time equivalent (FTE) job in Prince Edward Island is valued at an average of \$78,730 (wage and

benefits). As Gary Corbett, president of the Professional Institute of the Public Service of Canada noted, it will be smaller communities and jurisdictions where federal employees represent a disproportionate share of the workforce who will be most affected by job cuts: “A loss of five jobs in Charlottetown can be much bigger than 15 in a big centre,” he said.

In estimating a range of what the potential federal job losses might potentially be in Prince Edward Island, consideration was given to cuts that have been announced and what the potential implications may be for different government units in terms of future reductions. Consideration was also given to out-of-province transfers that have been announced since these represent job losses to the Prince Edward Island economy.

At the time of the writing of this report, the federal workforce situation was in considerable flux with new job cut announcements coming on a weekly basis. As such, the full extent of the federal government’s workforce reduction initiative will not be known for several months. In addition, it is particularly challenging to differentiate between cuts that are a result of pre-budget announcements versus those that represent new workforce reduction measures.

Two job cut scenarios, low and high, were developed. In the low scenario, a base reduction of 3% of the existing federal workforce was applied. In the high scenario, a base reduction of 6% was applied. These base numbers were then adjusted unit by unit to reflect known or anticipated changes that would likely impact the base numbers.

Based on available information at the time of writing, it is estimated that planned and near-term future cutbacks in the federal workforce could account for between 379 and 458 positions in Prince Edward Island, which represents approximately 10% to 12% of the current permanent federal workforce in the province. Note that positions are not FTEs, although it is estimated that some 94% of the federal workforce in PEI would be employed full-time.

By any measure, PEI appears to be shouldering a disproportionate share of federal job cuts. According to the Government of Canada, the planned overall reduction of 19,200 positions Canada-wide amounts to 4.8% of the federal workforce. Even on the low side of the estimate of cuts in PEI noted above, likely reductions amount to 10% of the federal workforce.

The range of job loss estimates are considered to be conservative as it is not possible at this point in time to accurately estimate the potential job loss impact on the contract, casual and student categories in terms of positions and FTE equivalents. For example, the degree to which workforce reduction targets can be achieved by the elimination of these non-permanent employees is not known. However, for the purposes of economic impact analysis, a job loss is a job loss.

As part of the research, Statistics Canada was contracted to generate an economic impact estimate based on the loss of 100 full-time equivalent federal government jobs in Prince Edward Island. As the outputs are scalable, the impact of 100 FTEs can be adjusted for any job loss

estimate. And as the Statistics Canada estimates are also presented in terms of total positions lost, the positions lost estimates could be utilized.

It is important to recognize that an economic impact estimate focuses on the financial aspects of the presence of a federal government workforce in Prince Edward Island. The economic impact estimate does not attempt to measure the significant impacts associated with the considerable social, cultural and skill development contributions of a federal workforce in the province.

The economic impact to the provincial economy associated with the range of federal job loss estimates is summarized in the table below. Based on the two federal job loss scenarios used, Prince Edward Island could experience a total provincial loss ranging between 576 and 696 FTE jobs. This equates to an economic loss of between \$50.5- and \$61.0-million, or 1.01% to 1.22% of the provincial 2010 GDP.

<b>Economic Impact Estimates Associated with Prince Edward Island Federal Workforce Reduction Estimates</b>		
	L	H
PEI federal job loss estimate (positions)	379	458
Federal FTE equivalent	357.4	432.3
Non-federal job losses (positions)	247	298
Non-federal job losses (FTE)	218.0	263.7
Total provincial job loss (positions)	626	756
Total provincial job loss (FTE)	575.5	696.0
PEI GDP impact -basic prices (\$millions)	(50.46)	(61.02)
% of provincial GDP (2010)	1.01	1.22

Once again, these estimates are considered conservative as they do not fully account for losses that will occur among the contract, casual and student staffing categories. However, by any measure, job losses of this magnitude and the associated impacts are a cause of serious concern for the overall provincial economy.

## BACKGROUND AND PURPOSE

Since 2006, the federal government has implemented initiatives to reduce federal expenditures with an overall goal of balancing the federal budget by 2015. The aggregate value of the expenditure reductions associated with these initiatives is estimated at between \$8- and \$9-billion. The majority of these reductions will occur between 2012 and 2015.

At an average of 43% of operational budgets<sup>1</sup> nationally, salaries and benefits earned by the federal workforce represent the single largest operating expense item for the federal government. From the perspective of the federal government, workforce reduction is a key action step to achieving its expenditure reduction targets.

This situation is widely recognized and estimates of an overall federal workforce reduction of between 30,000 and 50,000 positions have been quoted by various advocacy groups. In the federal government's 2012 budget, it was announced that the government intends to eliminate 19,200 positions between 2012 and 2015 with approximately one-third of these reductions occurring in the Ottawa/Gatineau Capital Region.

The implication of this focus in the Ottawa/Gatineau area is that staff reductions would come from national headquarters of government departments and agencies versus regional offices. However, as will be seen later in this report, this is not necessarily the case.

Next to the provincial government, the federal government is the largest employer in Prince Edward Island. Consequently, any reduction in the federal workforce in the province has the potential for a material negative impact on the provincial economy.

Leading up to the budget, federal ministers and senior bureaucrats provided very little specific information on how the expenditure reductions will be achieved. And this situation has changed little since the tabling of the budget. Within this information vacuum, numerous estimates of federal job losses in Prince Edward Island have been put forward. However, little provincial-level data are available and estimates have often been loosely based on proportioning a national estimate against the federal government's geographic presence across Canada.

In order to be better prepared for the federal government's ultimate expenditure reduction action plan, McInnes Cooper LLC was commissioned to more accurately estimate the depth and breadth of potential federal job losses in PEI. Sponsors of the project are the Government of Prince Edward Island, the City of Charlottetown, the Public Service Alliance of Canada (PSAC) and the Professional Institute of the Public Service of Canada (PIPSC).

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<sup>1</sup> Operating and capital expenditures; transfer payments to other levels of government, organizations or individuals; and payments to Crown corporations.

The scope of work for this assignment included:

- estimating the current size of the federal government workforce in Prince Edward Island;
- estimating a range of what the potential federal workforce job losses in Prince Edward Island may be; and
- estimating the provincial economic impact associated with potential federal workforce job losses.

The work was completed through desk research, key informant interviews, analysis and estimating, and the generation of provincial-level economic impact estimates by Statistics Canada using the department's input-output economic model.



## THE FEDERAL WORKFORCE IN PRINCE EDWARD ISLAND

The federal workforce encompasses all organizations and entities controlled by the Government of Canada. This workforce is typically delineated into two categories<sup>2</sup>:

1. **Core public administration (CPA)**...Departments and regulatory and administrative agencies of the federal government where the Treasury Board is the principal employer.
2. **Separate agencies and federal government business enterprises**...Organizations and entities controlled by the Government of Canada, including Crown corporations, but where the individual unit is the employer.

For the most part, the federal government reports its staffing levels in terms of total number of employees on the reporting date, without specifying the mix of full-time or part-time employment, or the full-time equivalent (FTE). The most frequent reporting date is March 31st, the end of the federal government's fiscal year.

The federal government also reports its employment based on permanent staff, with non-permanent staff, contract, seasonal and student hires, being excluded.

Employment data are most frequently reported at the national level, followed by the regional level. The Treasury Board typically publishes public reports with employment numbers at the provincial level while public data from non-CPA units are typically limited to the regional level.

The following are federal government units with a staff presence in Prince Edward Island:

Federal Government Units with a Staff Presence in Prince Edward Island	
Agriculture and Agri-Food Canada	Atlantic Canada Opportunities Agency
Business Development Bank of Canada	Canada Border Services Agency
Canada Mortgage and Housing Corporation	Canada Post
Canada Revenue Agency	Canada School of Public Service
Canadian Broadcasting Corporation	Canadian Food Inspection Agency
Canadian Heritage	Citizenship and Immigration Canada
Correctional Service Canada	Environment Canada
Farm Credit Canada	Federal Judicial Affairs
Fisheries and Oceans Canada	Foreign Affairs and International Trade Canada

<sup>2</sup> Source: Office of the Chief Human Resources Officer, Treasury Board of Canada Secretariat.

**Federal Government Units with a Staff Presence in Prince Edward Island**

Health Canada	Human Resources and Skills Development Canada
Industry Canada	Justice Canada
National Defence	National Research Council of Canada
Parks Canada	Public Health Agency
Public Safety Canada	Public Service Commission
Public Works and Government Services Canada	Royal Canadian Mounted Police
Statistics Canada	Statistical Survey Operations
Transport Canada	Treasury Board
Veterans Affairs Canada	

Source: Public Service Commission and desk research

**Exhibit 1**

Desk research and key informant interviews were completed to inform on the scale of the federal workforce in Prince Edward Island by unit. The table below is a summary of findings with the employee counts based on estimates of permanent staff on March, 2012:

<b>Estimate of Prince Edward Island Federal Workforce (Individuals, not full time equivalent (FTE))*</b>	
Agriculture and Agri-Food Canada	98
Atlantic Canada Opportunities Agency	71
Business Development Bank of Canada	4
Canada Border Services Agency	5
Canada Mortgage and Housing Corporation	3
Canada Post	275
Canada Revenue Agency	968
Canada School of Public Service	1
Canadian Broadcasting Corporation	150
Canadian Food Inspection Agency	134
Canadian Heritage	9
Citizenship and Immigration Canada	4

<b>Estimate of Prince Edward Island Federal Workforce (Individuals, not full time equivalent (FTE))*</b>	
Correctional Service Canada	18
Environment Canada	1
Farm Credit Canada	4
Federal Judicial Affairs	9
Fisheries and Oceans Canada	113
Foreign Affairs and International Trade Canada	3
Health Canada	3
Human Resources and Skills Development Canada	171
Industry Canada	4
Justice Canada	6
National Defence (civilian staff)	7
National Research Council of Canada	34
Parks Canada	63
Public Health Agency	1
Public Safety Canada	6
Public Works and Government Services Canada	54
Royal Canadian Mounted Police	170
Statistics Canada	1
Statistical Survey Operations	18
Transport Canada	9
Treasury Board	1
Veterans Affairs Canada	1,409
<b>TOTAL</b>	<b>3,827</b>

\* Workforce estimates are based on a March 30 reporting date. Peak workforce numbers are higher due to permanent staff working on a seasonal basis (e.g. Canada Revenue Agency and Parks Canada).

**Exhibit 2**

As noted, the federal government's employment presence in Prince Edward Island is also impacted by contract, casual and student hires. While the size of this cohort can vary significantly, primarily due to seasonal hiring, it is estimated that 700 or more positions annually could fall under the contract, casual and student categories.

The estimate of 3,827 permanent federal employees in Prince Edward Island makes the federal government the largest employer in the province next to the provincial government with an estimated 11,043 employees<sup>3</sup>. With an estimated 72,200 employed individuals in Prince Edward Island,<sup>4</sup> federal government permanent employees represent approximately 5.3% of the provincial workforce. The federal workforce in PEI also greatly exceeds any individual private sector or institutional employer.

Limited comprehensive public information is available on trends in federal employment in Prince Edward Island. According to Public Service Commission of Canada data, there has been an overall decrease of 35 positions (-1.7%) among the federal workforce population administered by the PSC (Exhibit 3). Note that the data in Exhibit 3 includes only federal government entities where the Treasury Board is the principal employer. Most Crown agencies and corporations are their own principal employers and aggregate historical employment numbers for the federal workforce in Prince Edward Island are not published.

<b>Federal Workforce - Prince Edward Island* Public Service Employment Act Population (as at March 31)</b>				
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Agriculture and Agri-Food Canada	94	83	89	98
Atlantic Canada Opportunities Agency	66	68	68	71
Canada Border Service Agency	5	4	3	5
Canada School of Public Service	2	2	2	1
Canadian Heritage	7	8	9	8
Citizenship and Immigration Canada	5	3	4	4
Correctional Service Canada	20	19	21	18
Environment Canada	6	3	3	1
Fisheries and Oceans Canada	119	119	122	113

<sup>3</sup> Includes provincial government (□3,504 individuals), health (□4,395 individuals) and public school boards (□3,144 individuals).

<sup>4</sup> Source: Statistics Canada, CANSIM table 282-0088, February, 2012.

<b>Federal Workforce - Prince Edward Island* Public Service Employment Act Population (as at March 31)</b>				
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Foreign Affairs and International Trade	2	2	3	3
Health Canada	4	3	3	3
Human Resources and Skills Development	204	205	177	171
Industry Canada	4	5	3	4
Justice Canada	7	7	7	6
National Defence	10	11	7	7
Public Health Agency	1	3	1	1
Public Safety Canada	6	6	6	6
Public Works and Government Services	53	55	59	54
Royal Canadian Mounted Police	31	33	34	36
Statistics Canada	-	-	-	1
Transport Canada	10	9	9	9
Treasury Board	1	1	2	1
Veterans Affairs	1,396	1,396	1,401	1,397
	<b>2,053</b>	<b>2,045</b>	<b>2,033</b>	<b>2,018</b>

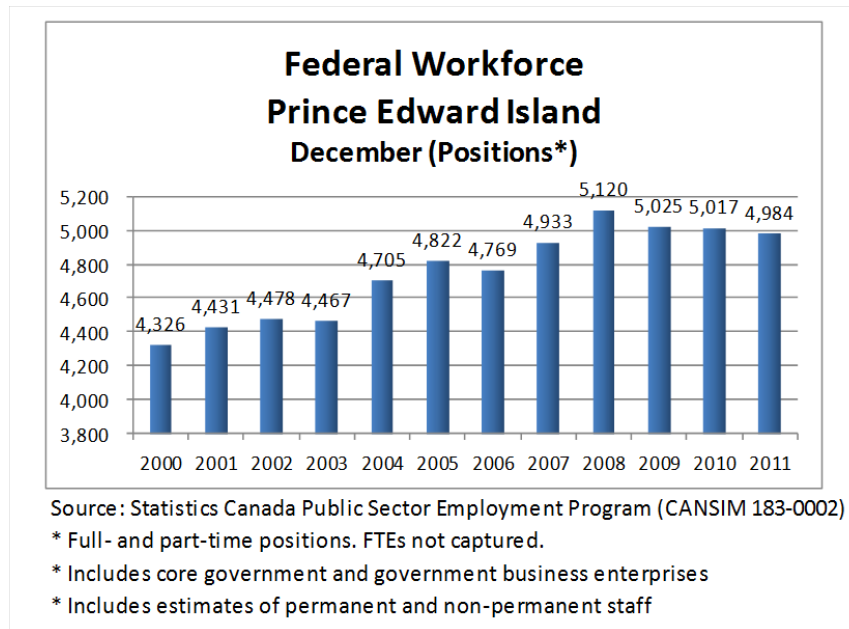
\* Full- and part-time positions. FTEs not reported.

Source: Public Service Commission of Canada annual reports

### **Exhibit 3**

Through different surveys and databases, Statistics Canada publishes estimates of the Canadian workforce by industry sector. While these federal government employment estimates have not been used for this project because they cannot be analyzed by government unit, the longitudinal continuity of the Statistics Canada data can be useful in better understanding historical patterns.

According to Statistics Canada data, the federal workforce in Prince Edward Island peaked in 2008 and represented an 18.4% increase over workforce numbers in 2000 (Exhibit 4). Since 2008, Statistics Canada data shows a 2.7% decrease in the workforce through to 2011.



**Exhibit 4**

Overall, it can be concluded that there has been a gradual downward trend in the size of the federal workforce in Prince Edward Island in recent years.

The depth and breadth of the federal government’s presence on Prince Edward Island may come as somewhat of a surprise to many. While key departments such as Veterans Affairs Canada, Canada Revenue Agency and the Atlantic Canada Opportunities Agency tend to be more visible, there are approximately 120 locations across the province where close to 4,000 permanent federal employees are located. While one-third of these locations are Canada Post offices, the federal government’s presence on the Island is significant by any measure.

As noted earlier, the federal government reports its employment based on permanent staff, with non-permanent staff (contract, seasonal and student hires) being excluded. The disparity between the number of positions reported in Exhibit 2 with the larger workforce cited in Exhibit 4 is likely accounted for by Statistics Canada’s broader inclusion of federal employees to include upwards of 700 staff that fall into the latter category.

## FEDERAL GOVERNMENT SPENDING CUT BACKS AND FEDERAL WORKFORCE REDUCTION

The Conservative Party of Canada has been elected as the governing federal party since 2006 (2006, 2008 and 2011) and currently holds a majority governing position. Since its first election in 2006, the Conservative Party has made fiscal balance a key priority: “The first step to making Canada even better tomorrow is to restore the fiscal balance in this country today.” (Jim Flaherty, federal minister of finance, Budget Speech, March 19, 2007).

As one of its strategies to achieve fiscal balance, the federal government introduced the Expenditure Management System in 2007 “...as part of an ongoing commitment to better manage government spending. This system ensures value for money for all government spending. A key pillar of this system is the ongoing assessment of all direct program spending, or strategic reviews.”<sup>5</sup>

Under the strategic reviews, all federal government entities were mandated to identify “reallocation options” totaling 5% of each entity’s direct program spending and operating costs associated with major statutory programs. Reduction options encompassed operating and capital spending, subsidies and transfer payments.

Since 2007, the federal government has continued implementing expenditure reduction initiatives:

1. annual Strategic Reviews since 2007 (2008, 2009, 2010);
2. Personnel Budget Freeze (2010); and
3. the Strategic and Operational Review (2011).

These expenditure reduction initiatives are now part of the federal government’s plan to reduce the deficit and achieve a balanced budget by 2015-2016.

It is estimated that the 2007-2010 annual Strategic Reviews have targeted \$1.82-billion in annual expenditure reductions through to 2013-2014,<sup>6</sup> while the Personnel Budget Freeze will result in an estimated \$2-billion in annual expenditure reductions.<sup>7</sup> The Strategic and Operational Review was targeting between \$4- and \$8-billion in annual expenditure reductions,<sup>8</sup> with the federal government announcing a \$5.2-billion reduction objective in the 2012 budget.<sup>9</sup>

Speculation prior to the budget about where the federal government would land on the \$4- to \$8-billion spectrum in expenditure reductions was widespread. As recently as the day before the

<sup>5</sup> Source: Treasury Board of Canada Secretariat, [www.tbs-sct.gc.ca/sr-es/faq-eng.asp](http://www.tbs-sct.gc.ca/sr-es/faq-eng.asp)

<sup>6</sup> Source: Canadian Centre for Policy Alternatives

<sup>7</sup> Ibid

<sup>8</sup> Source: Government of Canada

<sup>9</sup> Source: Government of Canada, Economic Action Plan 2012

budget, the Globe and Mail reported that “the Harper Government will chop \$7 billion from discretionary spending when the finance minister hands down his budget.”<sup>10</sup>

It is not known whether the government fueled speculation of cuts as high as \$8-billion in the hopes of making the actual \$5.2-billion cut more palatable. Whether it was intended or not, that is the impact it seemed to have. The day of the budget, the National Post echoed much of the public commentary, noting that “although it identifies \$5.2 billion in program spending within a few years, the fiscal blueprint falls short of the austerity package that some had feared.”<sup>11</sup>

By 2015-2016, when it is expected that all of the existing and pending expenditure reduction action plans will have been implemented, the federal government will have reduced its annual expenditures between \$8- and \$9-billion.

Actual annual expenditure reductions to date through 2011-2012 are estimated at approximately \$1.4-billion.<sup>12</sup> This leaves between \$6.6- and \$7.6-billion in annual expenditure reductions that will be implemented between 2012-2013 and 2015-2016.

The total federal workforce is estimated at approximately 529,434 individuals.<sup>13</sup> An estimated 43% of the federal government’s operational spending<sup>14 15</sup> goes to salaries and benefits, followed by transfers (26%) and professional services (11%). Given the significant operating cost represented by wages and benefits, federal workforce reduction (i.e., job cuts) have been identified by the federal government as a primary action step in achieving its \$8- to \$9-billion target in annual expenditure reductions.

Workforce reduction is not the only workforce-related action that will impact communities and provinces/territories as certain services are, and will continue to be, relocated to other jurisdictions. For example, it has been announced that the Montague Employment Insurance processing centre, employing □30 individuals, will be closed as services are consolidated in Halifax. Some of the Montague employees will have the option of relocating to Halifax, but the reality is that Prince Edward Island will lose 30 jobs regardless. It has also been announced that the pay and benefits sections of Veterans Affairs (□16 jobs) will be relocated outside of Prince Edward Island.

<sup>10</sup> Source: The Globe and Mail. “Federal Budget Expected to Slash \$7 Billion from Discretionary Spending”. March 28, 2012.

<sup>11</sup> Source: National Post. “Budget 2012: Planned cuts by department.” March 29, 2012.

<sup>12</sup> Source: Canadian Centre for Policy Alternatives

<sup>13</sup> Source: Statistics Canada, CANSIM table 183-0002

<sup>14</sup> Operating and capital expenditures; transfer payments to other levels of government, organizations or individuals; and payments to Crown corporations

<sup>15</sup> Source: Canadian Centre for Policy Alternatives and Government of Canada 2011-2012 estimates



# RESEARCH AND ESTIMATES OF FEDERAL WORKFORCE REDUCTION

## RESEARCH

Since the federal government's first Strategic Review was initiated in 2007, a material number of workforce reductions have been announced, with some of these announcements having been implemented and others pending.

Overall, however, most concerning to provinces/territories, organized labour and communities are the unknown number of federal employees that will be impacted by the 2011 Strategic and Operational Review and subsequent 2012 federal budget. With the exception of overall totals, the cumulative impact of job losses combined with confusion over what are pre- and post-budget job reductions only fueled this unease.

Two notable pieces of pre-budget research<sup>16</sup> were conducted to inform stakeholders outside executive government on the potential implications of budget reductions. One of these studies gives order-of-magnitude insight at the national level, while the other generates specific geographical job loss estimates, including Prince Edward Island.

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### **The Cuts Behind the Curtain: How federal cutbacks will slash services and increase unemployment**

MacDonald, D. 2012. Canadian Centre for Policy Alternatives.

This study examines the impact of three budget reduction initiatives that have been introduced by the federal government since 2007 (2007-10 Strategic Reviews, the Personnel Budget Freeze (2010) and the Strategic and Operational Review (2011)).

The Strategic Reviews and the Personnel Budget Freeze have and are having an impact on federal government operations. The Strategic and Operational Review will have future impacts on federal government operations. The study focuses on an estimated \$6-billion in annual expenditure reductions that will be implemented through to 2014-2015.

[Note: This \$6-billion estimate was later been revised upwards to \$8-billion prior to the tabling of the 2012 budget.]

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<sup>16</sup> This research was pre-budget and the federal government announced in its 2012 budget \$5.2-billion in expenditure reductions associated with the Strategic and Operational Review and the elimination of 19,200 positions. No details have been provided on the geographical impact of the reductions.

Three budget reduction action scenarios were developed:

- **Scenario 1:** 100 percent of budget reductions would be achieved through reductions in the federal government workforce and associated reductions in office space overheads.
- **Scenario 2:** 100 percent of budget reductions would be achieved through reductions in monetary transfers to Crown corporations and not-for-profits.
- **Scenario 3:** Budget reductions would be achieved through a mix of:
  - reductions in the federal government workforce and associated office space overheads;
  - reductions in other direct operating expenses;
  - reductions in monetary transfers to Crown corporations and not-for-profits.

For each scenario, the author did a department-by-department assessment of potential impacts based on the following assumptions:

- reductions would be proportional to department size;
- reductions will be asymmetrical (i.e., some departments will be protected);
- reductions will come from operations or transfers to Crown corporations and not-for-profits;
- there will be a proportional balance among departments facing cuts (i.e., no department will be impacted by greater reductions, proportionately, than other departments).

Scenarios 1 and 2 are acknowledged by the study author as being “extremes on the spectrum” or “worst case scenarios” with a low likelihood of actually being implemented, while some variation of Scenario 3 is described as being the most likely to occur.

In Scenario 3, “[i]t allocates the \$6 billion from the final two waves of cuts proportionally among staff, transfers, professional services, and other items in the departmental operating budgets.” Under this scenario, it is estimated that 54,100 full-time equivalent (FTE) positions would be lost nationally. This consists of 25,500 federal government FTEs and 28,600 private and not-for-profit sector FTEs.

Department by department calculations were done to derive the FTE loss among the federal government workforce, while economic multipliers were utilized to generate the estimate for the non-federal government workforce.

For Scenario 3, estimates are only provided at the national level due to the lack of data that would allow for the calculation of regional estimates. However, the following national estimates of FTE reductions are notable as these federal organizations have a significant presence in Prince Edward Island:

- Veterans Affairs Canada (403 FTEs nationally);
- Parks Canada (300 FTEs nationally);
- Atlantic Canada Opportunities Agency (78 FTEs nationally);
- Canada Revenue Agency (4,476 FTEs nationally);
- Human Resources and Skills Development Canada (2,337 FTEs nationally).

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### **Consequences of an 8 Billion \$ Cut to the Federal Budget**

\_\_\_\_\_. 2012. Canadian Association of Professional Employees.

Economist members of the Canadian Association of Professional Employees (CAPE) generated an economic impact estimate associated with an \$8-billion dollar reduction in federal government spending (10% of \$80-billion in federal government expenditures that had been targeted for possible reduction).

The estimate was generated using a standard inter-provincial input-output model utilizing Statistics Canada national and provincial industry multipliers. The input, or shock, was a \$10-billion reduction in the Federal Government Services expenditure category under the North American Industrial Classification System (NAICS) at the national level. The total reduction was proportioned to individual provinces and territories based on current federal government expenditures for each jurisdiction. A \$10-billion reduction was used “to facilitate multiple analyses.” Results were then adjusted by 0.8 to derive an estimate of an \$8-billion reduction.

CAPE estimated that there would be a total loss of approximately 11,700 jobs (public, private and not-for-profit sectors) in the Maritimes associated with an \$8-billion reduction in federal government spending:

- Nova Scotia (6,815);
- Prince Edward Island (999);
- New Brunswick (3,877).

Of the 999 total lost jobs estimated for Prince Edward Island using the Statistics Canada input-output model, slightly more than half (n=515) would come from the federal government services category, which includes defence.

It is notable that based on CAPE estimates, an \$8-billion reduction in federal government spending would, after Nova Scotia, have the most dramatic effect on Prince Edward Island as a province in terms of job losses relative to population (Exhibit 5).

**Provincial Impacts of Federal Expenditure Reductions**

Province	Population <sup>17</sup>	Total Job Loss Estimate	% of Population
Nova Scotia	921,727	6,815	0.74%
Prince Edward Island	140,204	999	0.71%
New Brunswick	751,171	3,877	0.52%
Ontario	12,851,821	50,175	0.39%
Manitoba	1,208,268	4,537	0.38%
Newfoundland and Labrador	514,536	1,792	0.35%
Québec	7,903,001	25,436	0.32%
British Columbia	4,400,057	11,352	0.26%
Saskatchewan	1,033,381	2,431	0.24%
Alberta	3,645,257	7,942	0.22%

Source: Canadian Association of Professional Employees

**Exhibit 5**

**OTHER ESTIMATES**

As noted earlier, the impact of the 2007 – 2010 Strategic Reviews and the 2010 Personnel Budget Freeze have had, and will continue to have, an impact on the federal workforce. The federal government has announced that 19,200 positions will be eliminated as a result of the 2011 Strategic and Operational Review, but full details of these cuts are only slowly being released.

The following are notable workforce-related news items sourced from organized labour releases, federal government releases, interviews and other releases, etc. Where known, the impact on the federal workforce in Prince Edward Island is noted.

• **May 1, 2012**

The Public Service Alliance of Canada announces that 16 Parks Canada positions in PEI will be eliminated, with another 16 full-time positions being reduced to seasonal.<sup>18</sup>

<sup>17</sup> Statistics Canada 2011 Census Population Counts

<sup>18</sup> Source: CBC News PEI. 'Parks Canada job cuts leaves P.E.I. workers shaken.' May 1, 2012.

- **April 23, 2012**

A representative of the Union of Veterans Affairs Employees confirms that upwards of 804 FTEs positions are slated to be eliminated nationally by 2015. Upwards of 243 of these cuts will occur in Charlottetown.<sup>19</sup>

- **March 30, 2012**

Charlottetown MP and Liberal Veterans Affairs critic Sean Casey states that Veterans Affairs expenditure reductions announced in the 2012 federal budget equate to a 10% reduction in departmental wages and benefits. Casey claims that 490 positions at Veterans Affairs will be eliminated between 2012 and 2015.<sup>20</sup>

- **February 29, 2012**

The federal government announced that seasonal student job centres will not open in 2012. No information is available on the federal workforce job impact in PEI.<sup>21</sup>

- **February 6, 2012**

In a letter to the editor to the Charlottetown Guardian, Senator Percy Downe stated that “Prince Edward Island lost 119 jobs between 2009 and 2011, and this was before the job cuts that are now under consideration.” No specifics were given on these job cuts.<sup>22</sup>

- **January 24, 2012**

The RCMP announced that five regular member (officer) positions will be eliminated in the spring “to offset increases in benefit-related expenses and administrative costs such as sick leave.”<sup>23</sup>

- **October 25, 2011**

In testimony before the House of Commons’ Standing Committee on Veterans Affairs, Keith Hillier, the department’s assistant deputy minister of service delivery, stated that “upwards of 500 positions could be reduced through increasing use of technology.”<sup>24</sup>

In addition, it has been announced that approximately 16 positions in the department’s payroll and benefits sections in Charlottetown will be relocated outside of Prince Edward Island.

<sup>19</sup> Source: Personal contact.

<sup>20</sup> Source: CBC News PEI. ‘Worst news for Veterans Affairs in Budget.’ March 20, 2012.

<sup>21</sup> Source: CBC News Canada. ‘Student job centres shut down across Canada.’ February 29, 2012.

<sup>22</sup> Source: The Guardian. Letter to the Editor. February 6, 2012.

<sup>23</sup> Source: The Guardian. ‘RCMP to trim force on P.E.I.’ January 24, 2012.

<sup>24</sup> Source: Standing Committee on Veterans Affairs. October 25, 2011.

- **October 20, 2011**

The Charlottetown Guardian reported that Veterans Affairs Canada plans to cut 500 positions over the next four years. Citing an “unnamed senior government official,” the Guardian claimed that the job cuts could reach 800 if further budget cuts are forthcoming.<sup>25</sup>

- **October 19, 2012**

The Atlantic Canada Opportunities Agency announced it was eliminating 42 jobs “as part of a budget-cutting exercise.”<sup>26</sup> Three positions were eliminated in Charlottetown with two incumbents retiring and one being laid off.

- **August 22, 2011**

Service Canada announced that the EI processing centre in Montague would be closed in March, 2014 as part of a process to consolidate 120 sites into 22. According to Service Canada, “the move is part of a plan to streamline and automate the EI process.” Twenty-eight (28) jobs would be lost and PEI would be the only province without a Service Canada processing centre.

“Attrition, re-assignment and training for other roles will help reduce the job cuts,” according to a Service Canada spokesperson.<sup>27</sup>

- **June 23, 2011**

National Research Council announced that 52 positions would be eliminated nationally.<sup>28</sup>

- **June 20, 2011**

Public Works and Government Services announced that 700 positions would be eliminated nationally over three years.<sup>29</sup>

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<sup>25</sup> Source: The Guardian. “Veterans Affairs cutting hundreds of jobs.” October 20, 2011.

<sup>26</sup> Source: The Chronicle-Herald. “ACOA to cut 42 jobs.” October 19, 2011.

<sup>27</sup> Source: The Guardian. “Montague losing federal jobs.” August 22, 2011.

<sup>28</sup> Source: The Professional Institute of the Public Service of Canada.

<sup>29</sup> Source: The Toronto Star. “Nearly 700 federal job cuts coming at Public Works.” June 20, 2011.

## FEDERAL GOVERNMENT RESPONSE TO WORKFORCE REDUCTION ESTIMATES

The planning behind the federal government's initiative to reduce expenditures has been deemed a matter of cabinet confidence. As such, details of the expenditure reduction options prepared by individual departments and agencies cannot be released or discussed and only become known when official announcements are made and/or notices are issued to potentially affected workers.

The frustration of this to external stakeholders is reflected in this excerpt from *The Cuts Behind the Curtain* report:

“The delegation to individual departments of where to cut has meant there is essentially no transparency as to what is being cut and why. The Parliamentary Budget Officer (PBO) has been critical of the government's lack of an implementation plan for the 2010 freeze.<sup>11</sup> The PBO was, in fact, unable to obtain information on the freeze because the government declared such information a “Cabinet confidence.” The declaration of these cuts as essentially a state secret means that mid-level managers who don't have clearance must try to make rational decisions without adequate information. As for the public – Canadians have no idea which federal services are being cut and by how much. In fact, one of the only ways so far for Canadians to know which services have been cut is to count the lost jobs after they've been announced. This flouts democratic scrutiny, and we may well see more of the same for the final wave of cuts – the \$4 billion Strategic and Operating Review.”

What government response there has been has been vague, with a few notable exceptions such as VAC, Parks Canada and Service Canada in Montague. Most recently, following the tabling of the 2012 federal budget, Gail Shea, the federal minister representing Prince Edward Island in the federal cabinet is quoted as saying that: "The minister of Veterans Affairs has said right from day one that the job numbers would be managed for the most part through attrition."<sup>30</sup>

But in an interview with Charlottetown's *The Guardian*: “When asked if VAC employees in Charlottetown would be safe due to Flaherty's assertion that regional jobs will be unaffected by upcoming cuts, P.E.I. MP and National Revenue Minister Gail Shea did not offer much hope.

‘With Veterans Affairs it's a bit of a different situation because all other head offices of the departments are in Ottawa with the exception of Veterans Affairs which is in Charlottetown,’ Shea said in an interview. “The bulk of the staff would be in Prince Edward Island, so it's in a bit of a different situation.”<sup>31</sup>

<sup>30</sup> Source: CBC News PEI. “Cuts to Veterans Affairs in administration only.” March 30, 2012.

<sup>31</sup> Source: *The Guardian*. “Veterans Affairs likely to face job cuts.” March 30, 2012.

On the future of VAC, Shea shares the same perspective as Jody LaPierre, a provincial director of the PSAC, warning that “Veterans Affairs Canada is the only head office not in Ottawa...so those cuts will be found in the Charlottetown region.”<sup>32</sup> As it turned out, cuts at VAC were officially announced in mid-April.

Prior to the tabling of the federal budget, Foreign Affairs Minister John Baird said on February 28 that cuts to the public service will occur “overwhelmingly” by attrition and not by deep cuts.<sup>33</sup> In the same news story, Baird is also quoted as saying that the federal budget cuts will be “like nothing,” and that: “We’re talking one-half, 2% cut, 3% cut, potentially. So it’s fairly modest. You know, it’s like nothing. Certainly nothing like what we went through in the mid-’90s.”

Amid considerable uncertainty among the staff of Veterans Affairs, a department spokesperson stated on February 23, 2012 that: “The changes within the department are due to the fact that some employees will be retiring over the next five years.”<sup>34</sup> In another news story on February 11, 2012, another department spokesperson stated that staffing cuts will be attained through attrition.<sup>35</sup>

These statements are consistent with those of Steven Blaney, the minister of Veterans Affairs Canada, in an October 31, 2011 interview with the Charlottetown Guardian. In this interview, the minister stated that he was “optimistic” that workforce reductions can be managed through retirements: “Within the margin of maneuver that is given by the expected people who will retire within the next five years, we have a margin of maneuver to adapt to this new reality.”<sup>36</sup>

<sup>32</sup> Source: CBC News PEI. “PEI unions review federal budget.” March 30, 2012.

<sup>33</sup> Source: Ottawa Sun, February 28, 2012

<sup>34</sup> Source: The Globe and Mail, February 23, 2012

<sup>35</sup> Source: Halifax Chronicle Herald, February 11, 2012

<sup>36</sup> Source: The Charlottetown Guardian, October 31, 2011



## PROJECTING FEDERAL WORKFORCE REDUCTION IN PRINCE EDWARD ISLAND: A BASIS FOR CONSIDERATION

Since the release of the federal budget speculation on the depth and extent of staff cuts has been widespread, with often conflicting media accounts of the exact details. And, as indicated by federal finance minister Jim Flaherty before the budget, the budget itself provided only a general accounting of the cuts and the details will follow later (*Flaherty won't reveal "intricate detail" of cuts in March 29 budget*, The Globe and Mail, February 29, 2012).

Initially, the 19,200 job cuts noted in the budget were to be drawn mainly from the National Capital Region versus from regional offices. According to Finance Canada, "A large portion of the full-time equivalent reductions will occur in the National Capital Region."<sup>37</sup> Finance Canada went on to note that "the regional distribution of employment in the federal public service will be largely unaffected by the implementation of departmental spending reductions."<sup>38</sup>

However, Minister Baird, in the day following the budget, indicated that of the 19,200 job losses, 4,800 would come from the Ottawa-Gatineau area.<sup>39</sup> The implication here is that close to 75% of the cuts would potentially come from the regions.

Our focus in examining the available research and analysis is to assess potential job losses resulting from the Government of Canada's various expenditure reduction initiatives, including the 2012 budget. It is clear the intent of the \$5.2-billion in expenditure reduction is, in part, aimed at reducing the number of public sector employees by changing how services are delivered.

For example, federal budget documents contend that a consolidation of branches in the Department of Agriculture and Agri-Food Canada "...will allow the Department to offer more efficient client services with fewer people."<sup>40</sup> By the same token, changes at Human Resources and Skills Development Canada will produce savings that "... will be achieved by consolidating, standardizing and automating administrative functions to reduce duplication and increase capacity to offer advanced services online."<sup>41</sup>

To gain an understanding of the possible breadth of federal workforce cutbacks that may impact Prince Edward Island, two core scenarios (low and high) were developed. The low core scenario was based on a 3% reduction in the federal workforce in PEI, with the high core scenario based on a 6% reduction. These two scenarios are intended to capture what would be considered a

<sup>37</sup> Source: Government of Canada, 2012 Budget Documents.

<sup>38</sup> Ibid

<sup>39</sup> Source: The Globe and Mail. "Ministers tout modest Tory plan to slash spending, shrink public service." March 30, 2012.

<sup>40</sup> Source: Government of Canada 2012 Budget Documents.

<sup>41</sup> Ibid

reasonable range of known and potential job cuts impacting the federal workforce in Prince Edward Island between now and 2015- 2016.

The percentages used are believed to represent a reasonable breadth of workforce cutbacks given that:

- workforce reduction will be one component of overall expenditure reductions;
- the 19,200 job cuts announced represent an average of 4.8% of the federal workforce; but
- there is a material range in the potential proportional share of overall expenditure reductions represented by workforce reductions.

In developing these scenarios, some notable exceptions were identified in relation to Prince Edward Island. The federal budget did offer some preliminary direction of how expenditure reductions would be managed. In addition, some departments, most notably Veterans Affairs and Parks Canada, have released more detailed estimates of job cuts. Key adjustments to the base estimates incorporated the following:

- Canada Revenue Agency to be cut 5.1% over three years amounting to \$225.4-million;
- CBC to be cut 10% over three years amounting to \$115-million;
- Agriculture Canada to be cut 9.02% over three years amounting to \$309.7-million;
- Veterans Affairs Canada eliminating upwards of 804 FTE positions nationally, with Charlottetown slated for upwards of 243 FTE position cuts;
- Veterans Affairs previously announced the relocation of the department’s payroll and benefits section to Miramichi, New Brunswick, affecting some 16 positions in Charlottetown;
- Parks Canada eliminating 16 full-time positions in PEI and converting an additional 16 full-time positions to seasonal; and
- Human Resources and Skills Development Canada previously announced the closing of the Montague EI processing centre, affecting 28 positions.

The low and high estimates of potential federal workforce reductions in Prince Edward Island are as follows:

<b>Estimates of Potential Federal Workforce Reductions – Prince Edward Island</b>			
	<b>Current Workforce Estimate*</b>	<b>Job Loss Estimates**</b>	
		<b>L</b>	<b>H</b>
Agriculture and Agri-Food Canada	98	3	6
Atlantic Canada Opportunities Agency	71	2	4
Business Development Bank of Canada	4	0	0

**Estimates of Potential Federal Workforce Reductions –  
Prince Edward Island**

	Current Workforce Estimate*	Job Loss Estimates**	
		L	H
Canada Border Services Agency	5	0	0
Canada Mortgage and Housing Corporation	3	0	0
Canada Post	275	8	17
Canada Revenue Agency	968	29	58
Canada School of Public Service	1	0	0
Canadian Broadcasting Corporation	150	5	9
Canadian Food Inspection Agency	134	4	8
Canadian Heritage	9	0	1
Citizenship and Immigration Canada	4	0	0
Correctional Service Canada	18	0	0
Environment Canada	1	0	0
Farm Credit Canada	4	0	0
Federal Judicial Affairs	9	0	1
Fisheries and Oceans Canada	113	3	7
Foreign Affairs and International Trade Canada	3	0	0
Health Canada	3	0	0
Human Resources and Skills Development Canada	171	33	38
Industry Canada	4	0	0
Justice Canada	6	0	0
National Defence (regular force)	7	0	0
National Research Council of Canada	34	1	2
Parks Canada	63	24	24
Public Health Agency	1	0	0
Public Safety Canada	6	0	0
Public Works and Government Services Canada	54	2	3
Royal Canadian Mounted Police	170	0	2
Statistics Canada	1	0	0

**Estimates of Potential Federal Workforce Reductions –  
Prince Edward Island**

	Current Workforce Estimate*	Job Loss Estimates**	
		L	H
Statistical Survey Operations	18	1	1
Transport Canada	9	0	1
Treasury Board	1	0	0
Veterans Affairs Canada	1,409	262	274
<b>TOTAL</b>	<b>3,827</b>	<b>379</b>	<b>458</b>
% of current workforce estimate		9.9	12.0

\* Estimated permanent employed positions on March 30, 2012.

\*\* Positions

**Exhibit 6**

Based on available information at the time of writing, it is estimated that planned and near-term future cutbacks in the federal workforce could account for between 379 and 458 positions in Prince Edward Island, which represents approximately 10% to 12% of the current permanent federal workforce in the province.

The range of job loss estimates are considered to be conservative as it is not possible at this point in time to accurately estimate the potential job loss impact on the contract, casual and student categories in terms of positions and FTE equivalents. For example, the degree to which workforce reduction targets can be achieved by the elimination of these non-permanent employees is not known. However, for the purposes of economic impact analysis, a job loss is a job loss.

It is worth noting that PEI seems to be shouldering a disproportionate share of federal job cuts. Total workforce reductions reported by the federal government are in the range of 4.8 percent. Even at the low end of the estimate proposed in this report, it would appear that PEI will see at least a 10 percent reduction in federal jobs.

## ECONOMIC IMPACT OF FEDERAL WORKFORCE REDUCTIONS IN PRINCE EDWARD ISLAND

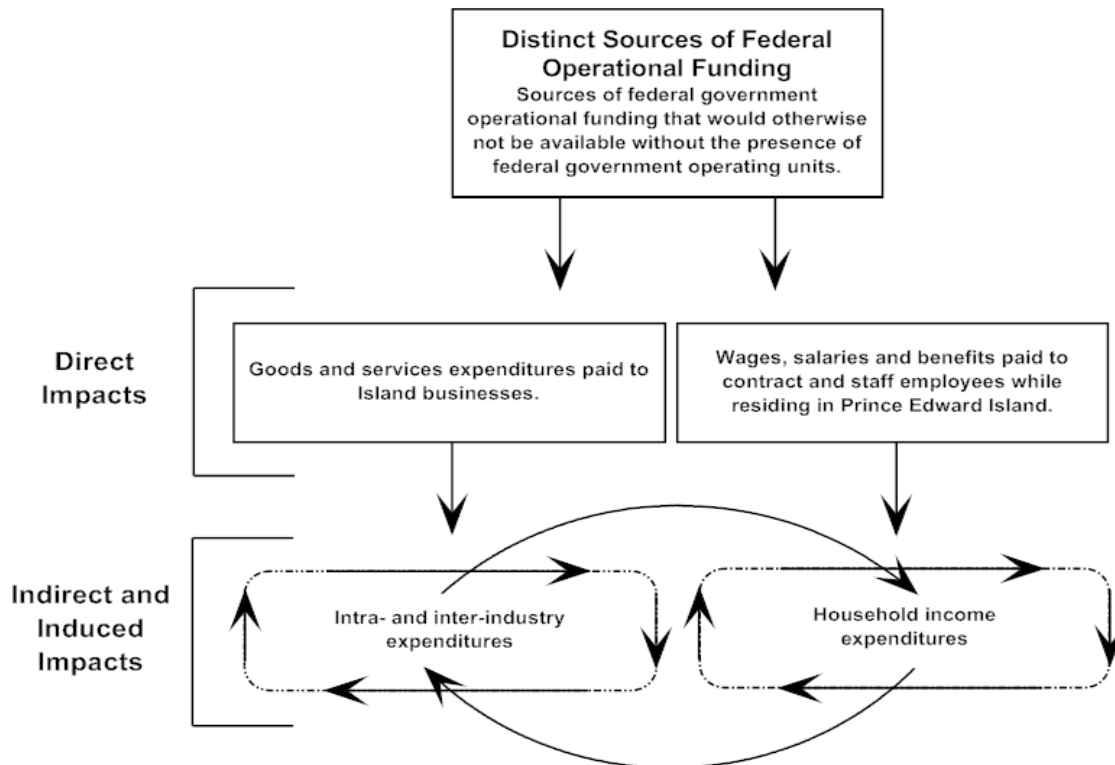
Government of Canada operations in Prince Edward Island directly affect economic activity in the province through expenditures on wages and salaries, construction, equipment and supplies and goods and services necessary as it conducts its business. These expenditures and business activities also create an indirect economic multiplier effect on the local economy which arises from spending by federal staff and the staff of local suppliers.

These local purchases generate additional income for local residents leading to further spending and income for residents. Thus the spillover effect of federal government operational expenditures continues after the initial money is spent as it generates further income, employment and earnings to those not directly associated with a federal department or agency. The multiplier effect of the federal government's operational spending is the sum of direct, indirect, and induced impacts on the local economy.

An input-output model breaks down the total federal government-related operational expenditures into economic sectors. Each sector is dependent to some degree upon other sectors. If there is a change in the level of activity in one sector, this will directly or indirectly cause a change in the level of production in other regional sectors. The amount of economic activity among different economic sectors measures the degree of inter-relationship between sectors.

These interdependencies among regional economic sectors can be estimated through inter-industry or input-output analysis based on a transaction matrix and direct requirement matrix. A summary of the economic inter-relationships of federal government operational expenditures within the provincial economy is illustrated in Exhibit 7 on the next page.

Input-output models are frequently used to measure the positive or negative impact of a 'shock' value, such as the addition or loss of jobs to the provincial economy. In the case of the federal government, there is a considerable amount of economic data available with respect to PEI-based employment-related inputs and outputs, so federal employment shock values can be used with a high level of confidence in the resulting economic impact estimates.



**Exhibit 7** Economic inter-relationships between federal government operational expenditures and the provincial economy

‘Jobs’ are just one possible shock value. For example, in the research completed by the Canadian Centre for Policy Alternatives and the Canadian Association of Professional Employees, both organizations used a total expenditure reduction shock value, with job loss being an impact output. The methodological intent of these studies is not dissimilar from this project’s job-centric approach and is a reflection of available data and focus.

Statistics Canada was contracted to generate an economic impact estimate based on the loss of 100 full-time equivalent federal government jobs in Prince Edward Island. As the outputs are scalable, the impact of 100 FTEs can be adjusted for any job loss estimate. And as the Statistics Canada estimates are also presented in terms of total positions lost, the positions lost estimates from Section 6 can be utilized.

It is important to recognize that an economic impact estimate focuses on the financial aspects of the presence of a federal government workforce in Prince Edward Island. The economic impact estimate does not attempt to measure the significant economic impacts associated with the considerable social, cultural and skill aspects associated with a federal workforce in the province.

Exhibit 8 below summarizes the economic impact estimates associated with the low and high estimates of potential PEI federal workforce reductions:

<b>Economic Impact Estimates Associated with Prince Edward Island Federal Workforce Reduction Estimates</b>		
	L	H
PEI federal job loss estimate (positions)	379	458
Federal FTE equivalent	357.4	432.3
Non-federal job losses (positions)	247	298
Non-federal job losses (FTE)	218.0	263.7
Total provincial job loss (positions)	626	756
Total provincial job loss (FTE)	575.5	696.0
PEI GDP impact -basic prices (\$millions)	(50.46)	(61.02)
% of provincial GDP (2010)	1.01	1.22

**Exhibit 8**

By means of explanation:

- A high estimate loss of 458 federal workforce positions in PEI equates to an estimated 12% of the permanent federal workforce (see Exhibit 6).
- The 458 workforce positions are the equivalent of 432.3 federal FTEs provincially.
- From the Statistics Canada data, it is estimated that one federal FTE job in Prince Edward Island is valued at an average of \$78,730 (wage and benefits).
- The loss of 432.3 FTE federal jobs and the personal expenditures associated with these incomes has a negative ripple effect throughout the provincial economy on the companies that sell goods and services to both the federal government in PEI and its employees. This negative ripple effect continues throughout the provincial economy.
- The ripple effect from a loss of 432.3 FTE federal workforce jobs would result in an estimated loss of another 298 positions in the province, which equates to 263.7 non-federal FTEs.
- The total provincial FTE loss stemming from a loss of 432.3 federal FTEs is  $432.3 + 263.7 = 696$ .

- The loss of 432.3 FTE federal workforce jobs and the resulting financial impact (direct, indirect and induced) is an estimated aggregate monetary loss to the provincial economy of \$61.02-million.
- Using this one scenario, \$61.02-million represents 1.22% of PEI's 2010 provincial GDP.

Based on the two federal job loss scenarios used, Prince Edward Island could experience a total provincial loss ranging between 576 and 696 FTE jobs. This equates to an economic loss of between \$50.46- and \$61.02-million, or 1.01% to 1.22% of the provincial 2010 GDP.

Once again, these estimates are considered conservative as they do not fully account for losses that will occur among the contract, casual and student staffing categories. However, by any measure, job losses of this magnitude and the associated impacts are a cause of serious concern for the overall provincial economy.

As wages and benefits being paid play a significant role in estimating the potential impact of job losses, a comparative analysis was done on the \$78,730 average wages and benefits value derived from the Statistics Canada's economic impact estimate.

Data sources included staffing numbers and salary grids provided by the Public Service Alliance of Canada and Statistics Canada income data for the individual Atlantic provinces.

According to Statistics Canada data, the average income paid to federal employees in Prince Edward Island in 2011 was \$61,258.<sup>42</sup> Total employee benefit costs are estimated at 20% of total salary costs, which is believed to be the standard benefit calculation used across the federal government.<sup>43</sup> Total income and benefits would then be \$74,400.

The average income paid to federal employees in Nova Scotia, New Brunswick and Newfoundland and Labrador in 2011 was \$65,239, \$63,265 and \$64,276.<sup>44</sup> Prince Edward Island's average federal income is not inconsistent with the other Atlantic provinces, and is actually one standard deviation below the mean of the four provinces.

The many federal wage grids that encompass members of the Public Service Alliance of Canada were examined and randomly tested for "average" rates. For example, the Canada Revenue Agency has a Service and Program Group wage grid that ranges from a Level 1/Step 1 annual rate of pay of \$35,159 to a Level 10/ Step 5 at \$102,907. This is believed to be reasonably representative of federal workforce pay scales. Averaging the wage levels under Step 3 produces an overall average of \$61,288 per year, which is consistent with Statistics Canada's overall 2011 federal wage average for Prince Edward Island.

All-in-all, it is concluded that the \$78,730 federal wages and benefits average for Prince Edward Island from Statistics Canada's economic impact analysis is reasonable.

<sup>42</sup> Source: Statistics Canada, CANSIM table 183-0002

<sup>43</sup> Source: Industry Canada

<sup>44</sup> Ibid



The research conducted by the Canadian Association of Professional Employees would be the most comparable to the economic impact estimates above. In their research, CAPE allocated an \$8-billion annual reduction in federal government expenditures based on the current proportional expenditures in each province/territory. They then used the resulting number for each province/territory as the shock value.

CAPE's \$8-billion shock value was a high-end scenario of what federal expenditure reductions may be. Using this shock value, CAPE estimated that 515 federal positions in Prince Edward Island would be lost and 999 total positions would be lost.

Based upon the 2012 federal budget that has been tabled, the federal government's expenditure reduction objective of \$5.2-billion is lower than the \$8-billion shock value used by CAPE. However, it is possible to proportionally adjust CAPE's output estimates. In doing this, a revised estimate of positions lost would be 650 positions (335 federal and 315 non-federal).

As can be seen in Exhibit 8, the high scenario estimate derived in this study is a total of 723 positions. This is an 11.2% difference from the estimate in the CAPE study. However, the CAPE study did not factor in out-of-province transfers, which account for almost two-thirds of the difference. It can therefore be concluded that while different methodological approaches were used, there is no material difference between the outcomes of the two studies. Both studies therefore confirm the significant negative economic implications for Prince Edward Island due to planned reductions in the federal government workforce in the province.