COVID-19
Financial and Workforce Impacts

Treasury Board Secretariat
Why are we here?

- COVID-19 has created significant fiscal cliff
  - Revenues collapsing; expenses spiking
  - Every province in same situation

- Row together & develop a collective response
  - Protect vital front line services like Health, Child Care, Protection & Justice

- Not theoretical
  - Newfoundland announced “immediate and urgent financial crisis” requiring federal intervention
  - Alberta has commenced layoff process
Manitoba Most Vulnerable - Highest Debt

- Prior to COVID-19, MB’s debt as percentage of tax supported revenues was highest among provinces
- Things will get worse—but how much worse?

Manitoba has highest per capita debt in Canada, and worst “anchor score”

Source: CIBC Economics
Rapidly Deteriorating Economic Outlook

- Manitoba economic growth is forecast to drop in 2020 from +1.3% to −3.1%
- Every week, forecasts worsen
- Revenue losses > $3.3 billion possible
  - Even worse without quick recovery

Source: Manitoba Finance Survey of Economic Forecasters, April 2, 2020
Unprecedented Private Sector EI Claims

- Numbers keep getting revised upwards
- Last week, the forecasted job losses were just 6,500
- Largest single monthly decline in recorded history
- Total EI levels possible exceeds 60,000
- Does not include under-employed

Source: Stokes Economics
Unprecedented Layoffs

Source: Manitoba Bureau of Statistics, April 9, 2020

Temporary Layoff rate
(on temporary layoff / persons unemployed)

Source: Manitoba Bureau of Statistics, April 9, 2020
Disparity between Private and Public Sectors

Source: Manitoba Bureau of Statistics, April 9, 2020
Expenses are Growing

- We have implemented immediate plans to defer all non essential expenses
  - Every dollar available is being re-deployed to Health & COVID-19 response

- COVID-19 related expenditures are increasing significantly
  - PPE expenses alone could be close to a $1 billion ($80M+ per month)
  - Conservatively expect $1.7 billion in expense pressure

- Recovery may be slow, and have long term impacts
Credit Markets

- Our borrowing program may need to **double** to as high as $10 billion + this year
- Very bad time for provincial governments to be borrowing – spread difference is ~$150M **per year**, for next 30 years
  - Seeking everyone’s support to ask Ottawa to support provincial borrowing programs

**Average spread pre COVID-19 (June 2019-Dec 2019)**

**Average spread post COVID-19 (March-April)**

Source: Manitoba Finance
What Central Government is Doing

- Spending hundreds of millions on front line COVID services
- Deferring all non-essential expenses
  - Over $500M of spending to be deferred; efforts underway to find more
  - Significant expenditure management controls deployed
  - Re-purposing existing base spending to be re-deployed for COVID-19 related supports (e.g., research grants re-deployed for COVID-19 research)
  - Undertake “zero base” reviewing our external grants and spending to find cost-avoidance potentials
- Government 2.0 exercise
  - We know the world is not going back to what it was
  - How will government services in the future need to match this new world?
  - Hundreds of potential changes/pivots under consideration
  - Looking towards the recovery & resetting provincial economy and priorities
Why are we here today?

2020-21 Expenditures
Per Cent of Total

- Debt Servicing (4%)
- Government Business Enterprises (21%)
- Core Government (24%)
- Other Core (15%)
- Families (9%)
- Other Reporting Entities (51%)
- Health (30%)
- Education* (21%)

* includes Economic Development and Training

2020-21 Capital
Per Cent of Total

- Core Government (24%)
- Other Core (7%)
- Infrastructure (18%)
- Other ORE (4%)
- Education (6%)
- Health (10%)
- Other Reporting Entities (20%)
- Other GBE (4%)
- Government Business Enterprises (55%)
- Hydro (51%)

Source: Manitoba Bureau of Statistics
Public Sector Workforce Salaries

<table>
<thead>
<tr>
<th>Core Departments</th>
<th>2020/21 Employees</th>
<th>2020/21 Budget</th>
</tr>
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<tbody>
<tr>
<td>Core Departments</td>
<td>&gt;12,500</td>
<td>$1 billion</td>
</tr>
<tr>
<td>Other Reporting Entities (ORE)</td>
<td>&gt;79,700</td>
<td>$8 billion</td>
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<tr>
<td>Total Summary Gov.</td>
<td>&gt;92,300</td>
<td>$9 billion</td>
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</table>

- Increased **monthly** provincial deficit is in the range of $400M to $500M
- Salary costs are our single largest expense, by a lot
- Managing public sector workforces is also required to address these challenges

**What is your organization’s share of this $8 billion annual expense?**
Workforce Cost Reduction A Necessity

There are no options to increase revenues. In fact, most of the remaining revenues are being deferred.

The private sector and other governments are controlling expenses. We must do the same.
Your Share of $500M

What would that take if everyone rowed together?

- Addresses only $500M
- How to calculate “your share”?  
  - Total summary wages are $8 billion; for rough illustration purposes assume ~50% are essential service providers that will not be reduced (and in fact are expanding) 
  - Of the remaining $4 billion, what percentage are your labour costs? 

\[
\text{Your labour costs} / \text{4 billion} \times 500 \text{ million} = \text{in year savings required, or } \sim 10\%
\]

*If everyone rowed together than reduced non-essential labour costs by 10%, we would be able to afford a further $500 million for COVID response*
Our Goals

- Financial Context – Fiscal pressure could be ~$5 billion for 2020/21
  - Approximately 2:1 revenue losses & increased expenditures
  - Will be higher if things do not recover soon
  - Without any management, this deficit would be more than 5x the deficit in 2016, which precipitated three credit rating downgrades

Achieve savings of $750M through all other spending control mechanisms

Save a further $500M this year across summary government in wage expenses (including central government), without reducing essential service providers.
Our large Crowns are facing significant fiscal pressures

Manitoba Liquor & Lotteries – normally returns >$600M / year to the Province – could become cash flow negative

Following international trends, Hydro is seeing significant total load demand drop as industry idles; costs at Keeyask are escalating materially to deal with distancing requirements

There have been massive changes in service delivery – in Post Secondary Institutions, K-12 Education, and across much of the public sector

We cannot pretend that none of this has occurred

The need to adapt – and rationalize staffing levels – cannot be avoided
To be clear …

- None of this applies to healthcare and health care workers
- Along with child care workers, teachers and a host of other essential workers and services
- These steps are about our ability to better support essential workers and services
- This is the first step in a process
- To minimize layoffs where possible
Options Available for Workforce Cost Reductions

- **Lay offs**
  - Obviously most aligned with private sector approach – and has the most significant impact
  - Our objective is to minimize outright layoffs to the extent possible

- **Voluntary Reduced Workweeks (VRWs)**
  - Current central VRW is capped at 20 days. Could be increased to 35 days (7 weeks)
  - For illustration purposes, were 35,000 staff to take 7 weeks we would achieve savings of ~$340M

- **Work-Sharing**
  - Agreement involving employers, employees and Service Canada/EI to reduce work schedule by 20% to 60%, for between 6 and 76 weeks
  - Not available to central government – yet – we need support getting Ottawa to expand eligibility
  - Potentially now available to OREs
  - For eligible entities, 18 weeks (4.5 months) with 60% of non-essential staff working 6 out of 10 days generates $350M savings

- **Further Management Reductions and Voluntary Executive Salary Reductions**
  - As additional components of overall approach

- **Legislation**
  - Last Resort – should extraordinary circumstances continue and extraordinary measures be required
Our asks of you

1. Primary focus is mitigating unavoidable impacts of COVID-19

2. Stop all non-essential, discretionary expenses. If appropriate and necessary, repurpose base spending to support COVID-19 response. Otherwise, stop all non-essential spending immediately.

3. Encourage the organizations you support to take advantage of federal support programs.

4. Pursue immediate and constructive employer-union engagement to assess options, collaborative action and planning.

5. Because work is simply not there some non-essential workforce layoffs will be required (e.g., casinos). So employer-union coordination is vital to issue layoff notices as soon as possible while other options continue to be explored.
Our asks of you (continued)

6. Scope what is truly “essential”; start to plan
   
a) Plans to be in place from May 1 to August 31, with contingencies to extend return to work targets

b) Generate (10%) /medium (20%) /high (30%) workforce reduction proposals within a week
   
   • Focus on the total dollar savings (i.e., reduced OpEx) – not the actual number of FTEs
   
   • Ensure salary dollars are removed from spending – do not shift salary dollars to other operating expenses (e.g. consultants)

   • Applicable Deputy Ministers will distribute TBS response templates to all OREs
Our asks of you (continued)

7. Join us in thinking about “Government 2.0”

- How will all organizations emerge post-COVID-19 as more agile and relevant parts of government?

- The world will have changed forever – how will your own organization?