



Government fiscal sustainability

Leading through fiscal complexity: A confident agenda for government change

In today's public sector landscape, the imperative for clarity and focus has never been more acute. Senior government leaders are confronting a convergence of enduring structural challenges and rapidly emerging complexities that are fundamentally reshaping the fiscal and operational environment. Issues such as an aging population, a maturing workforce, and a persistently low-growth

economy continue to exert sustained pressure, not only on the delivery of government services, but more critically, on the allocation of resources necessary to address these challenges. These long-term trends steadily erode fiscal flexibility, compelling governments to make increasingly difficult decisions about how best to deploy finite resources for maximum impact.

Compounding these structural pressures are a host of new complexities, starting with geopolitical tensions that are reshaping the landscape for trade, defence, and data sovereignty. Canadian governments are responding through transitional assistance to affected parties and a repositioning of the economy to reduce dependence on a single market. Adjustment policies will further increase



fiscal demands, as will the reemergence of guns-and-butter calculations. Meanwhile, public government mandates are expanding, and intergenerational challenges, such as housing affordability and financing the energy transition, are intensifying. While Canada does not seem ready to admit being in a fiscal crisis, history suggests that periods of mounting pressure can culminate in abrupt corrections, what economists describe as Minsky moments, where stability gives way to sudden and severe instability. Collectively, these factors force governments to stretch their capacity further, while remaining agile in response to evolving public needs and external shocks.

Over the past decade, the role and ambition of government intervention have expanded markedly, a trend that accelerated during the COVID-19 pandemic and an embrace of industrial policy in response to the energy transition and geopolitical pressures. With COVID, governments acted swiftly and at scale to protect lives and livelihoods, often relaxing fiscal constraints in the process. This necessary expansion has persisted even as the immediate crisis has receded, leading to a pattern of incrementalism: baseline expenditures have grown year over year, frequently without rigorous scrutiny of their alignment with government priorities. As an example, federal spending as a percentage of GDP has grown back to 16% of GDP (exclusive of one-time COVID measures) after vigorous efforts in the 1990s to trim it back to 12%-13% of GDP and to return it there after the great financial crisis. If left unchecked, this tendency risks undermining fiscal sustainability, as slack is gone, and resources are increasingly allocated based on historical precedent rather than evidence of impact or strategic relevance. Moreover, whereas the action from the Great Financial Recession through COVID was on stimulating demand and ensuring consumption, the emphasis is shifting to stimulating supply and ensuring investment. The result is a

growing tension between the aspiration to do more and the reality of limited resources. Without a deliberate shift in approach, these pressures threaten to impede government's ability to deliver on its mandate and have the flexibility to adjust to future shocks. Success in this environment demands that leaders optimize both spending and outcome delivery, making conscious, and often difficult choices about what to start, stop, or transform.

Fortunately, we are operating in a fundamentally different era; one defined by the availability of new levers to influence policy targeting and outcome delivery. Digital technologies and artificial intelligence are no longer theoretical; they are practical tools capable of reshaping government operations. These technologies present unparalleled opportunities to generate insights, automate tasks, and personalize services, all while driving efficiencies previously out of reach. The challenge for government is not merely to adopt these tools, but to integrate them thoughtfully into decision-making and service delivery.

Central to this transformation is the imperative of fiscal sustainability. While the term may be self-evident, it is important to define it expansively to extend beyond simply balancing the books; it is about ensuring the capacity of governments to manage public finances over the long term in a manner that enables the delivery of chosen outcomes. Fiscal sustainability is achieved not only through optimizing expenditures, but also by avoiding unnecessary or low-impact costs, introducing preventative measures that avoid costs, generating new revenue streams, and maximizing the utilization of public assets. Ultimately, it is about providing responsive, agile services and ensuring that fiscal resources are always available to pursue the government's highest priorities. This is a non-partisan frame of thinking that is compatible with all government stripes.

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The approach

Achieving this vision requires a holistic, integrated approach, one that brings together expenditure management, cost avoidance, human resources and technology transformation, and revenue generation into a single, coherent strategy. It is also not a one-and-done exercise, but a capability and muscle that needs to be exercised regularly. The federal government's famous 1994-95 program review was successful in reducing expenditures and cutting public service positions, but barely scratched the surface of transformation. Instead, there is a need to reframe the management of trade-offs, moving away from a mindset of scarcity and incrementalism toward new concepts of an abundance agenda in which government can do more with the resources at hand while promoting the supply side of the economy.

At the core of this approach is a relentless focus on outcomes. Aligning spending with priorities must become an ongoing discipline, not a dramatic exercise every 15 to 20 years. This demands a shift from incremental budgeting to priority-based spending, ensuring that every dollar is directed toward outcomes that matter most, and which are frequently validated.

That said, pursuing this agenda will be anything but easy. It requires reversing years of policy expansion and entrenched operational practices, a shift that will inevitably shock the system. Serious fiscal sustainability cannot be achieved without confronting politically unpopular choices, whether through program cuts, redesign, or reimagined funding models. Yet governments no longer have the luxury of avoiding such trade-offs. Both debt and taxation as a share of GDP have been rising, leaving federal and provincial governments with fewer degrees of freedom and more difficult decisions ahead.

The centre of government¹ has a critical role in establishing the frameworks and disciplines that drive public sector transformation as well as a leadership role in key operational policies such as procurement, real estate, and shared IT capabilities. As the steward of system-wide coherence, the centre must consolidate mandates where appropriate, reduce duplication, and set the government's risk tolerance, encouraging innovation while maintaining accountability. It should establish formal structures, such as robust business case development, target setting, budgeting guidelines, and performance management, and should champion a culture shift towards efficiency, effectiveness, and continuous improvement across the public service.

If left unchecked, incremental spending risks undermining fiscal sustainability. With little remaining budgetary slack, resources are increasingly allocated based on historical precedent rather than on evidence of impact or alignment with strategic priorities.

The centre possesses multiple levers ranging from soft influence to policy, regulation, and legislation, to set the foundation for success. However, the operationalization of transformation must occur within individual departments and agencies, working within the frameworks established by the centre. Departments are responsible for

1. In this context, 'centre of government' refers to the organizations such as the Prime Minister / Premier's Offices, Privy Council's Office, Cabinet Offices, Departments of Finance and Treasury Board Secretariats.



Without a deliberate shift in approach, today's mounting pressures could impede government's ability to fulfill its mandate and limit its flexibility to adapt to future shocks.

optimizing programs and processes, applying lean methodologies, digital tools, and AI to streamline service delivery and internal operations. They must adopt risk- and impact-based approaches tailored to their context, continuously evaluate and refine programs, and pilot new initiatives, scaling successes and sunseting those that no longer deliver value.

Service delivery itself must be reimagined. While service delivery optimization may seem like a departmental remit, the centre has an important role to play given its line of sight to all departments. Expenditure reduction in one department may lead to increases elsewhere, and the centre may need to provide guidance when applicable. Overlapping responsibilities, such as the well-advertised duplicative environmental assessments at different levels of government, should be streamlined.

Efficiency can be enhanced through regulatory reform, shared services, procurement modernization, and risk-sharing via outsourcing or public-private collaborations. Technology, in particular, must be seen as a strategic enabler rather than a cost centre. Addressing technology debt and investing in AI will be essential to reducing administrative burdens, automating tasks, and unlocking new efficiencies. The conditions are in place for a new paradigm that allows for a reduction or reallocation of spending while enhancing impact and better achieving desired outcomes.

The path forward

A range of domain-specific solutions are already available, including some exemplars of excellence emerging within the public sector. Areas such as business and citizen experience platforms, grants administration, and cybersecurity

are particularly well-positioned for transformation. However, realizing the full potential of these solutions will require deliberate and coordinated action between the centre and individual departments. Establishing enterprise platforms that can be leveraged across multiple departments and use cases will be essential to achieving both efficiency and effectiveness at scale.

Equally important is a focus on cost avoidance. Investments in preventative initiatives, such as those that bend the cost curve in health care, or program integrity initiatives aimed at curbing fraud, waste, and abuse, can yield significant long-term benefits.

Reimagining the business models of government-operated assets can enhance service delivery efficiency and generate revenue, supporting broader mandate objectives.

Governments need to think long term to attain fiscal sustainability; otherwise, they just focus on the crisis today and miss the investments that reap benefits in the future. Prioritizing such long-term initiatives is politically difficult, as the payback timelines often extend beyond electoral cycles, creating a disincentive for political leaders to champion initiatives with deferred benefits.

Delivering on this agenda requires focus and discipline. First, governments must rebase funding, resetting baseline expenditures against today's priorities, not yesterday's commitments. Second, they need to re-examine the revenue base to ensure it is sustainable, competitive, and consistent with the government's chosen outcomes. Third, they must invest in transformations: initiatives that cut costs, unlock new revenues, or reinvent service models in ways that pay for themselves and free up resources for higher-priority outcomes. Together, these steps create the fiscal space needed to build resilience and deliver on the government's core mandate.

This transformation framework represents a new paradigm for government, one that will require engineered discipline from the centre, as well as sustained commitment and buy-in from departmental leadership and the broader public service.

Unlike previous periods of austerity, today's environment is shaped by a convergence of enduring demographic pressures and rapidly emerging complexities that demand a fundamentally different approach. It is also an era where public opinion on the scale of government has shifted, making fiscal sustainability initiatives not only necessary but also more politically palatable. Technological advancements in several domains present new options for government leaders to find and rapidly execute on such opportunities. Success will depend on the willingness of government leaders to embrace this new frame. Only through coordinated effort can the public sector navigate these unprecedented challenges and deliver the outcomes that citizens expect.

The path forward will not be easy, but the cost of inaction is far greater. The responsibility, and the opportunity, to shape a sustainable and resilient public sector rests with us all. Deloitte is committed to supporting this dialogue and welcomes opportunities to collaborate on advancing the fiscal sustainability agenda.

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Authors

Michel El-Khoury
Partner, Government and Public Services Fiscal Sustainability leader, Deloitte Canada
micelkhoury@deloitte.ca

James Gordon
Government and Public Services Industry Managing Partner, Deloitte Canada
jamesgordon@deloitte.ca

Contributors

Paul Rochon
Former Federal Deputy Minister of Finance. Executive Advisor, Deloitte Canada

Jaimie Boyd
Partner, Central Government Sector leader, Deloitte Canada

Shannon Kot
Partner, Government and Public Services Technology Strategy leader, Deloitte Canada

Andrew Medd
Partner, Government and Public Services Operate leader, Deloitte Canada

David Galbraith
Former British Columbia Deputy Minister and Secretary to Treasury Board. Strategic Advisor, Deloitte Canada

Edward Greenspon
Executive Advisor, Co-Chair, Future of Canada Centre, Deloitte Canada



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