

# FINAL REPORT

*Submitted to*

**Minister Of Finance**  
The Hon. E.T. "Bob" Richards JP, MP

*October 31, 2013*

October 30, 2013

The Honourable E.T. "Bob" Richards JP, MP  
Minister of Finance  
Government of Bermuda  
The Cabinet Building  
105 Front Street  
Hamilton HM05

Dear Minister,

I am pleased to submit to you the final report of the Spending and Government Efficiency (SAGE) Commission.

This document and its related appendices represent the SAGE Commission's review of the Bermuda Government since the Commission was officially gazetted on April 15, 2013. The observations, findings and recommendations outlined here are the result of an exhaustive analysis of the cost of running the Government.

Each Commissioner involved in this initiative has been shaken by the magnitude of the financial challenge facing Bermuda. However, each of us is convinced that solutions are within reach – if we don't allow partisanship to fracture our resolve.

We believe that we have outlined recommendations that are achievable. Our hope is that Government will act on these recommendations, and act on them with a sense of urgency.

We would like to express our sincere gratitude to the many volunteers from the private sector who worked tirelessly with the SAGE Commission, and to the many dedicated Civil and Public Servants who met with us and provided candid, constructive feedback.

Minister, we would also like to thank you and your colleagues for introducing the legislation that made the SAGE Commission possible. The Commission was established at a time when an independent review of the Bermuda Government was a bold step in the right direction.

We are presenting you with a hard copy of our final report and with the URL to a password-protected web site containing the entire report. We have created the site in the interests of transparency and accessibility, and ask that with the tabling of the report in the House of Assembly, your Ministry ensures that the web site is live to the public.

It has been an honour to serve Bermuda as Chairman of the SAGE Commission. I thank you for the privilege.

Sincerely,



Brian Duperreault

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*(Documents made available to the SAGE Commission can be viewed on the flash drive included at the back of this report.)*

# Executive Summary

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*He knows not his own strength that has not met adversity.*

Ben Jonson, poet and playwright

## A COUNTRY IN TRANSITION

During more than 400 years of settlement, Bermuda has weathered a battery of challenges. The Island has been buffeted by literal and figurative winds of change that have tested the country's mettle. Bermudians proved to be resilient, responding to adversity with confidence and vigour.

From a financial standpoint, a pragmatic ingenuity ensured that the Island continued to develop from strength to strength. Bermudians learned to capitalise on a service-based economy, leveraging a natural beauty and gift for hosting to create a buffer of affluence and a level of comfort for its residents that few other countries could offer.

Now, for the first time in Bermuda's history, that buffer is gone. A country traditionally ranked in the top tier as a leisure destination and business jurisdiction features an economic profile that a few decades ago would have seemed unfathomable.

Bermuda is labouring under a cost of Government that continues to increase an already substantial debt and threatens to destabilise the financial foundation of the country. Its population is declining. Its two principal industries, tourism and international business, are facing increasing competitiveness. Where once its citizens had a choice of jobs, rampant unemployment hovers like a spectre over a country in profound transition.

The scenario is an unfamiliar, uncomfortable one for a proud Island for which adjectives like "premier" and "blue chip" have long been the norm.

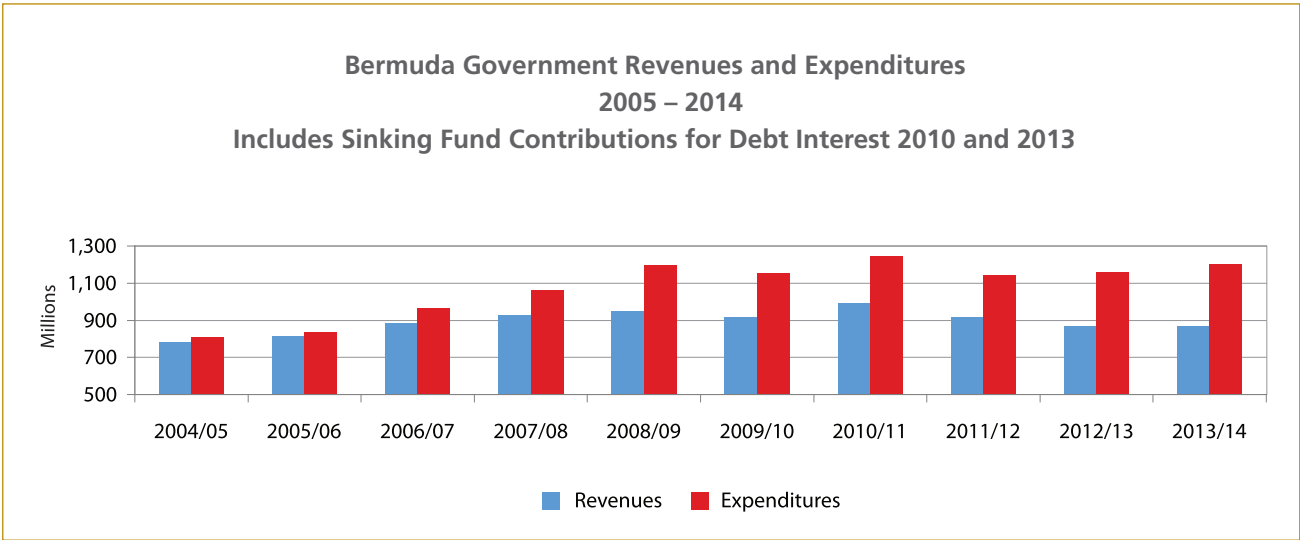
But this is the grim reality Bermuda faces in 2013, the fourth straight year of decline in its gross domestic product. While other countries have begun to rebound from 2008's global downturn, Bermuda remains in recession.

We are staring at a degree of adversity for which we have no past experience. For the first time in the Island's history, we have difficult, painful decisions to make that will affect thousands of our country's citizens.

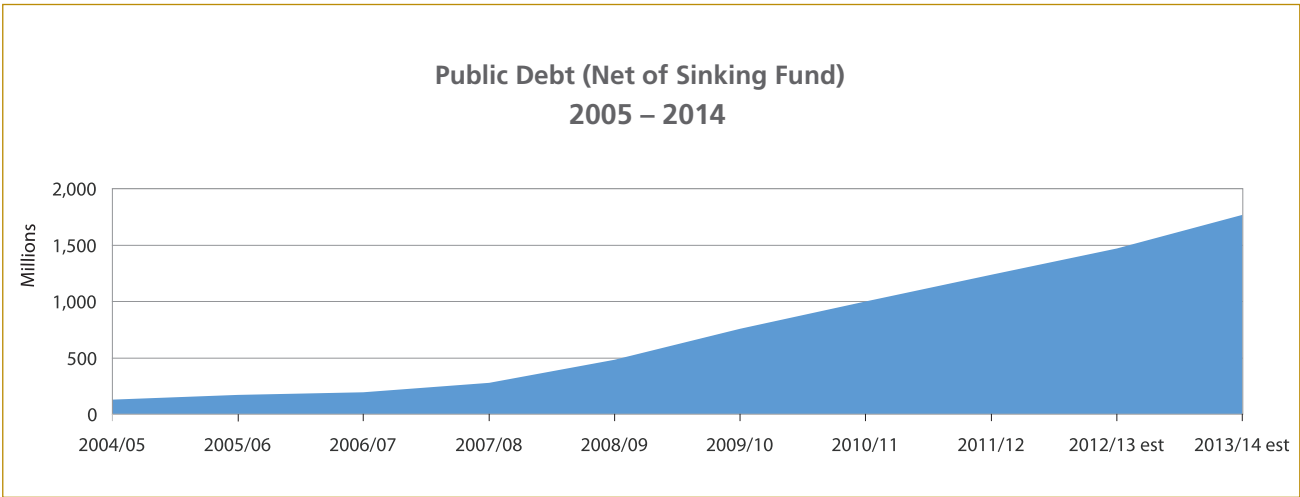
Our collective response to this 21st century wind of change will shape Bermuda's future for generations to come.

## AN UNSUSTAINABLE STATUS QUO

From 2005 to date, Government has spent more than it has earned.

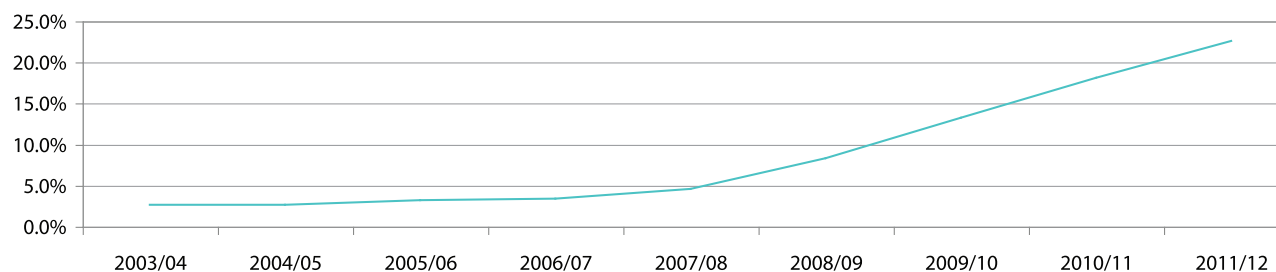


The SAGE Commission was established in response to the massive public debt accumulated from years of sustained deficits. By the end of Government’s current fiscal year (2013/14), debt on a net basis will be almost \$1.8 billion.



The Commission was charged with conducting a six-month analysis and making recommendations that will help to establish a more modern, efficient and accountable government – one that Bermuda needs and can afford.

**Public Debt (Net of Sinking Fund) as % of Gross Domestic Product  
2003 – 2012**



Finance Minister the Hon. E.T. “Bob” Richards J.P., M.P. did not – in fact, would not – give the Commission a target figure for expense reduction. Minister Richards wanted the review and the resulting recommendations to be based on an objective analysis that was unconstrained by a predetermined benchmark.

This report is the result of an extensive analysis conducted by dozens of volunteers committed to finding a way to help Bermuda recover her economic health. Thousands of hours went into reading reports, analysing data and interviewing members of the public and private sectors. Hundreds more were spent in lengthy meetings to discuss findings and recommendations.

The Commission’s interim report, submitted on July 23 of this year, laid out key findings after three months of study (The Interim Report is included in the Appendix of this report.)

In the main, none of these findings have changed. The work of the SAGE Commission has corroborated and, where possible, substantiated and quantified the Commission’s interim findings.

There are a number of overarching themes and findings that were reflected in the Interim Report. They have been validated in subsequent analysis, and now drive our final recommendations:

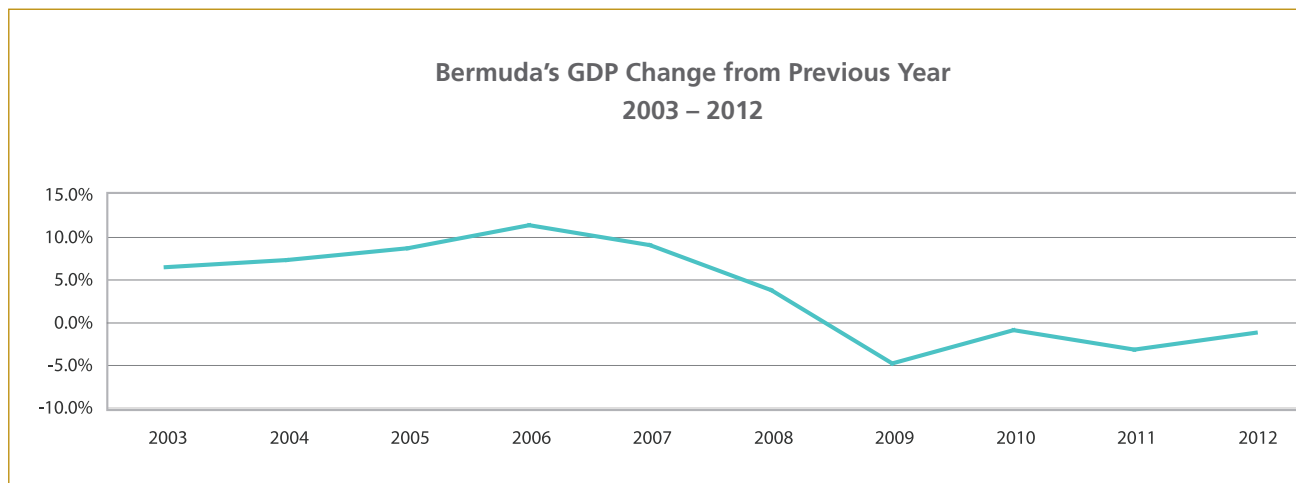
- There is a lack of effective, accountable leadership in Bermuda’s Civil and Public Service. If this issue is resolved, other weaknesses are likely to be addressed.
- The Civil and Public Service suffers from a flawed organisational structure in which the principles of best practice management are not enforced and in which a cumbersome, lethargic culture is rife.
- The manner in which the Civil and Public Service is governed and in which reporting lines are identified demands a paradigm shift to meet Bermuda’s needs in the 21<sup>st</sup> Century.
- Political interference has been allowed to thwart the effective management of the Civil Service.
- The lack of effective leadership is compounded by a lack of fiscal discipline by both Civil Servants and politicians. This shared responsibility to maintain revenue and expense budgets has been ignored for too long.
- The Bermuda Government, including the Legislature, is too big for the size of the country it serves. With too many Ministries and Departments, the organisation has become bloated. As a result, there is evidence of unfocused, duplicated and diluted decision-making.

- Because there is no integrated process for planning and measurement, the Bermuda Government does not have a national strategic plan. Clearly articulated measurable goals and objectives are absent, while stated goals and objectives rarely correlate with cohesive business plans.
- Some of the services provided by Government could be delivered more efficiently and cost effectively by the private sector.
- There is no clear, documented, fully functioning and transparent process to measure efficiencies or to achieve accountability.
- Inefficient use of the resources entrusted to Government by the taxpayer should no longer be tolerated.
- Measuring efficiencies alone will never achieve accountability. Efficiency only matters if Government is effectively contributing to the well-being of the people of Bermuda.

While noting the above, the SAGE Commission believes that many employees in the Civil and Public Service have the skills and expertise, and the desire, to deliver necessary services to the community – provided they are led effectively and accountably in an impartial work environment.

## THE URGENCY OF NOW

Bermuda's economic situation, with four years of negative GDP, must not be ignored, and the decisions required to address this must not be delayed.



Based on the SAGE Commission's six-month review of the Bermuda Government, expense reductions must be made of \$65 million, \$75 million, \$80 million and \$90 million a year for the next four years if Bermuda is to regain its financial footing.

Effecting these reductions will be a mammoth task, but we believe it can be done. It will require political and public will, and a collective commitment to shared sacrifice.

Just as importantly, any plan for expense reduction must be supported by a plan for generating revenue, increasing the Island's population and thereby the economy, and establishing jobs for Bermudians.

Having said that, we are guided by the belief that change must be implemented with “a head and a heart”. Bermuda’s fragile economy cannot and will not sustain massive layoffs or draconian pay cuts.

The recommendations outlined in this report reflect the SAGE Commission’s areas of focus during its review: Performance; Streamlining; Measurement & Metrics; Privatisation & Outsourcing; Pensions; and Economic Analysis.

While Bermuda’s spiralling cost of health care also warranted examination, a review of the health care system was not possible given the SAGE Commission’s six-month timeframe. In addition to the public sector component of health care costs, there are many other stakeholders who need to be involved in any such undertaking.

This group includes private insurers, overseas providers, physicians, the service provider community and the general public. The Commission did not have the time or resources to interact with such a diverse stakeholder group on such a complex issue.

In our Interim Report, we recommended that Government form a SAGE-like Commission to review health care cost containment in Bermuda. That recommendation still stands.

## **PERFORMANCE: The Critical Paradigm Shift**

Strong and effective leadership is the cornerstone of every organisation, both in the public and private sectors.

Leaders in the 21<sup>st</sup> Century must:

- create a strategic vision,
- implement with agility and accountability,
- act with purpose and flexibility,
- devise innovative solutions to complex problems,
- collaborate with disparate stakeholders, and
- continually learn and develop as individuals.

The employees of the Civil and Public Service do not have sufficient leadership skills and capabilities at the right management levels, nor are the necessary skills and capabilities present in an appropriate number of individuals, to meet the challenges that Bermuda faces today.

Further, senior leadership has allowed bad practices to develop and has not held individuals to account for poor performance or inappropriate actions.

While there are “stars” within Government, both at senior management and staff levels, there is a collective lack of commitment to excellence, results, accountability and adherence to rules as evidenced below:

- Best practice performance management systems, where present, are not appropriately utilised.
- There are many areas of Government with no performance management systems at all.
- At the Permanent Secretary and Head of Department level, there is little evidence of performance monitoring, objective measurements and in some cases, little awareness of the severity of the issues facing Government.

## Public Service Commission

According to the Public Service Commission's (PSC) web site, the PSC's current role is "to ensure that all appointments, promotions, dismissals and all disciplinary matters within the Public Service are conducted efficiently, fairly and without political interference".

In practice, as currently constituted, the PSC does not have the responsibility to ensure that good governance permeates the Civil and Public Service.

In addition, if systemic change is to be effected throughout Government, the SAGE Commission believes an entity empowered to oversee the change process is a critical factor to achieving success.

The Commission believes it is an organisational imperative to reconstitute the PSC as an independent body with oversight for appointments and dismissals, performance appraisals, and succession planning of the Civil and Public Service.

This body – a governing board, for all intents and purposes – must be charged with addressing the issues of leadership and accountability throughout the Civil and Public Service, and empowered to oversee, monitor and manage the performance and accomplishments of the persons holding the offices of Secretary to the Cabinet and Head of the Civil Service.

While the current constitutional provisions for the PSC may serve for the recommended expanded role of the PSC, we recommend the necessary changes be made to the Bermuda Constitution to effect this critical organisational change:

1. The Governor, after consultation with the Premier and the Leader of the Opposition, appoints nine Bermudian Commissioners from a broad cross-section of the community.
2. The Governor chooses the Chairman from those appointed Commissioners.
3. The Chairman serves for a term of three years with the option for one renewal at the Governor's discretion after consultation with the Premier and the Leader of the Opposition.
4. Commissioners serve on a rotating basis for a term of three years, to a maximum of six years.
5. No Commissioner is a Civil Servant.
6. Commissioners receive compensation for their service commensurate with their increased responsibilities.

## Secretary to the Cabinet and Head of the Civil Service

As the Public Service Commission assumes a more robust governance profile, and as initiatives are implemented to address Government's structural and fiscal issues, it will be critical to have clarity around the roles and responsibilities of the Civil and Public Service's leadership. This will ensure that decisions made at the PSC level regarding strategy and planning are implemented effectively throughout Government Ministries and Departments.

Currently, the position of Secretary to the Cabinet has responsibility for the Civil and Public Service. The current post holder has delegated this responsibility to an Assistant Secretary to the Cabinet.

The SAGE Commission recommends the following:

- Establish two roles – Secretary to the Cabinet and Head of the Civil Service – to lead Government employees.
- Give both positions equal seniority.
- Define the role of Secretary to the Cabinet in accordance with the provisions of Section 69 of the Constitution, but expand it to include other areas of focus such as co-Chair of the Civil Service Executive and responsibility for the Central Policy Unit.
- Give responsibility for managing the operations of the Civil and Public Service to the Head of the Civil Service, including completing the performance appraisals of the Financial Secretary and Permanent Secretaries.
- Give responsibility for creating job descriptions for the posts of Secretary to the Cabinet and Head of the Civil Service to the Secretary to the Cabinet. These are to reflect the recommendations of the SAGE Commission and are to be approved by the PSC.
- Give responsibility for the performance appraisals of Secretary to the Cabinet and Head of the Civil Service to the PSC.
- Abolish the position of Assistant Cabinet Secretary.

In addition to responsibilities outlined in the Constitution, the Secretary to the Cabinet should be charged with overseeing the SAGE Commission's recommendations that impact those areas that fall directly under him or her, together with areas for which the position has administrative responsibility.

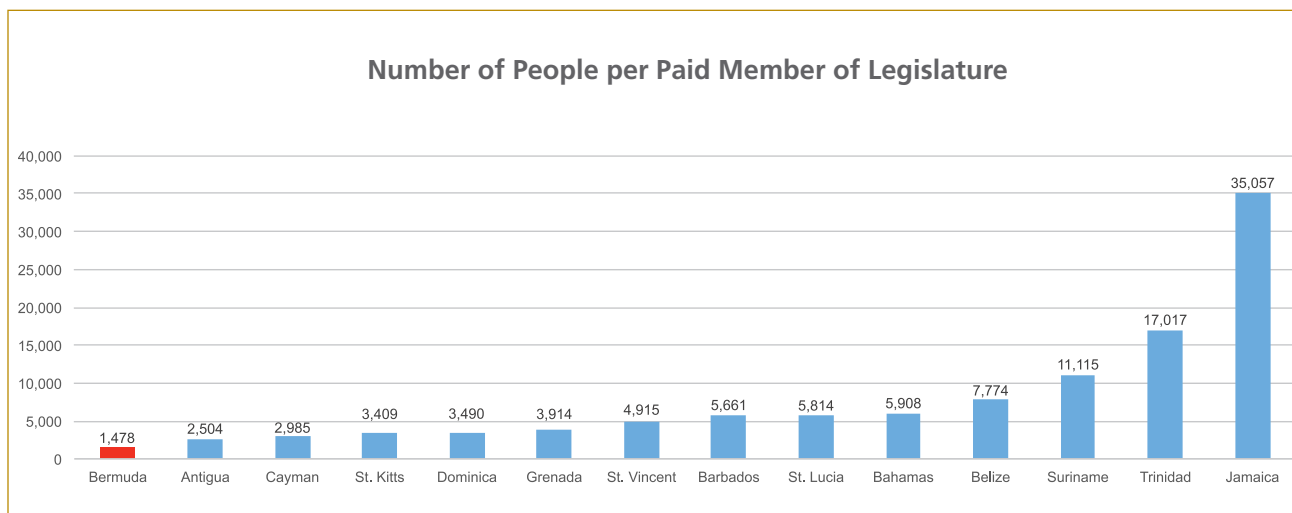
The Head of the Civil Service should have the responsibility for Shared Services, Human Resources, and the administrative responsibility for the Public Service Commission, as well as for implementing the SAGE Commission's recommendations that impact those areas that fall directly under him or her (e.g. Government employees).

## **STREAMLINE: Creating a Nimble Government**

In comparing the size of Government with Bermuda's and other countries' populations, and in tracking Government's growth during the last 20 years, the SAGE Commission believes that Government is much larger than it needs to be to conduct the Island's business and to deliver necessary services to tax payers.

With 36 Members of the House of Assembly, 11 Senators, 12 Ministries, 72 Departments, 13 Quasi Non-Governmental Organisations (quangos), 16 related entities and approximately 5,300 employees, a multi-layered management structure and excessive decentralisation have led to unnecessary red tape, poor communication and delayed decision-making.

More specifically, it is a simple fact that Bermuda carries a high number of paid legislators compared to many other countries.



As our elected and appointed representatives address the Island's economic challenges, the SAGE Commission believes they have an opportunity to demonstrate their belief that the sacrifice required to regain Bermuda's financial footing must be shared by all.

The Commission recommends that the cost of running the Bermuda Legislature be reduced by 15% which is approximately \$911,000 on the budgeted amount of \$6,079,000.

Recommendations affecting the size of the Legislature and a maximum number of Ministers will require changes to the Bermuda Constitution.

In the first instance, we recommend that the House of Assembly be reduced from 36 to 30 seats. Secondly, we recommend that the size of the Cabinet be reduced to a maximum of 8 Ministers, including the Premier.

It is anticipated that these reductions represent \$730,000 savings in salary and benefits.

The Premier can accomplish the reduction in the size of the Cabinet now.

The reduction in the size of the House requires a constitutional change which may also be made now but which will not take effect until the next General Election.

Until both of these recommendations are implemented, we recommend that the Ministers and Members of the Legislature take an immediate reduction in salary equal to the reduction in salary and wages of the Civil and Public Service.

We also recommend that Ministers and Members of the Legislature reduce their salary in the future in line with any reductions in the salary and wages of the Civil and Public Service.

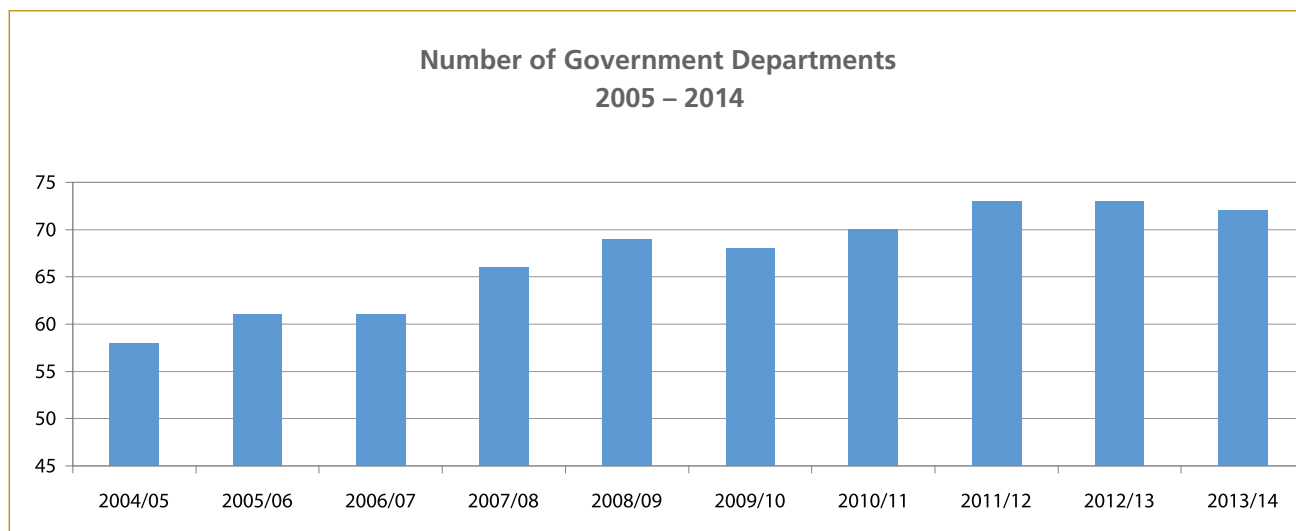
However, these cost savings do not equal the targeted 15%. We therefore recommend that the remaining areas of the Legislature's budget be reduced to make up the difference and/or further reductions in the salary of the Ministers and Members of the Legislature.

We believe these actions will underscore to the Bermuda community that our Parliamentarians are serious about addressing the country's debt crisis and that leadership in this regard begins at the top.

Form 3 Joint Select Committees of the Houses of The Legislature, each to be responsible for 2 or 3 Ministries. These Committees will monitor the Ministries' activities on an ongoing basis.

The Commission also recommends the following reductions (and one increase) to the organisational structure of the Bermuda Government:

- Ministries: from 12 to a maximum of 8
- Departments: from 72 to 52
- Quangos: from 13 to 12
- Organisations where Government has administrative responsibility: from 9 to 8



An organisational chart for the Bermuda Government reflecting these recommendations can be found on Pages 62 and 63 of this report.

## **MEASUREMENT & METRICS: The Era of Accountability**

While there are pockets of efficiency and areas of measurable effectiveness throughout the Civil and Public Service, they are the exception rather than the rule.

Notable for its absence is a framework that enables strategic planning, tactical execution and metrics-based, customer-focused evaluation throughout Government.

The Cabinet Office and the Civil Service Executive must create a national strategic plan for Government, approved by Cabinet and based upon the political platform of the government of the day.

The need for a national strategic plan cannot be overemphasised. Without one, there can be no sensible basis for making the necessary difficult decisions regarding the allocation of scarce resources.

Each Ministry should have a strategic plan that aligns and is consistent with the national plan. These plans, produced by Heads of Departments under the guidance of relevant Permanent Secretaries, should project out from three to five years, summarising the initiatives Government intends to implement, the outcomes it intends to achieve, the additional resources required, changes in existing services required to free up the resources needed, and the cross-Ministry and cross-Department coordination required.

Once Cabinet, the Civil Service Executive and Government Ministries have a strategic plan, they will have a framework for deciding which services Government can prudently provide within the

constraints imposed by the fiscal deficit and by Government's ability to manage its long-term financial commitments.

Annual business plans, based on the priorities in the strategic plans, must be prepared for each Ministry and Department and for Government overall. These plans must identify expected outcomes, the services and activities that support those outcomes, the resources required and the inter-relationships with other Departments and Ministries.

The Cabinet Office must develop its own strategic and business planning capacity, as well as its capacity to enable, support and monitor the creation and execution of cross-Government plans, the development of appropriate measures, and the building of monitoring capabilities in each Ministry and Department.

The SAGE Commission also proposes a new Strategic and Business Planning Calendar that sets out the schedule that the Commission believes is essential for effective planning, execution and monitoring of the Government's activities.

Government as a whole, and each Ministry and Department, should monitor the success of their activities using performance measurement and related metrics reports.

The public should have easy access to strategic plans, business plans, annual performance management reports and quarterly dashboards reporting interim progress. There is no greater impetus to the continual improvement of the efficiency and effectiveness of Government services than an informed and engaged citizenry.

## **PRIVATISATION & OUTSOURCING: The Right Services for the Right Price**

There is ample evidence that some areas of Government are undertaking functions that are inefficiently delivered; in other areas, Government should not be undertaking the function in the first place.

However, given Bermuda's size and infrastructure, considerations related to privatisation and outsourcing must be taken in a different context than in a larger jurisdiction.

After eliminating public services that must be provided by Government as services that could be privatised or outsourced (the Cabinet Office, Public Safety, etc.), the SAGE Commission looked at opportunities for reducing expenses, improving service and providing growth and stimulation to Bermuda's small businesses.

Our research into what has and hasn't worked in other countries revealed that privatisation is complex. It takes time, specific expertise and careful consideration. We believe that we shouldn't let Government inefficiency be the sole driver to making a decision about privatisation.

We also learned that outsourcing is not a simple task. It must be planned carefully and have meticulously crafted contracts.

With the above in mind, we believe there are a number of clear and compelling opportunities to use privatisation and outsourcing to reduce the cost of running the Bermuda Government.

To address the complexity of execution, we recommend the establishment of a Privatisation & Outsourcing Authority as an independent body. This authority should consist of seven appointments by the Minister of Finance, with two to be made from the members of the Trade Union Congress.

The Authority should be charged with reviewing all Government activities and entities to determine whether Government involvement continues to be justifiable.

Where appropriate opportunities present themselves, the Authority should assume primary responsibility for promoting, facilitating, and overseeing all competitive outsourcing activities.

Given that there is a finite number of Government services to be considered for either privatisation or outsourcing, the Authority should have a sunset provision to expire after six years.

In alphabetical order, we recommend that the Authority consider part or all of the following services for privatisation or for placement in a quango:

- Airport Operations, Ministry of Tourism Development & Transport
- Civil Aviation, Ministry of Economic Development
- Highways Management, Ministry of Works & Engineering
- Maritime Administration, Ministry of Economic Development
- Public Lands & Buildings, Ministry of Works & Engineering
- Waste Management, Ministry of Works & Engineering
- Water & Sewage Management, Ministry of Works & Engineering

In alphabetical order, we recommend that the Authority consider part or all of the following services for outsourcing:

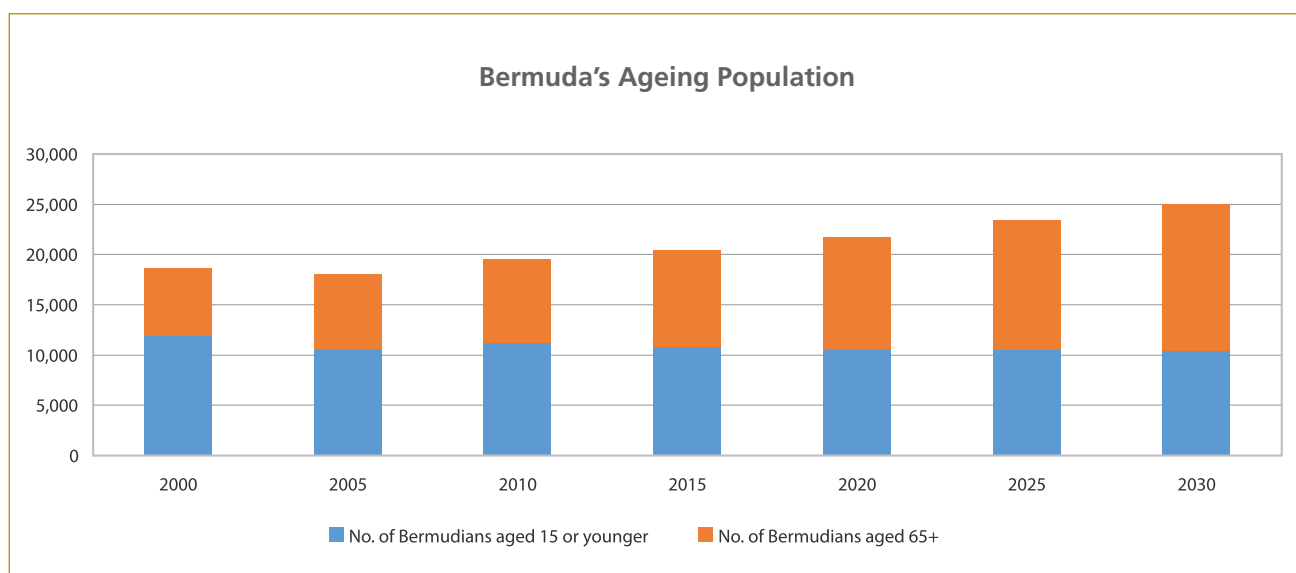
- Conservation Services, Ministry of Environment & Planning
- Corrections Department, Ministry of Public Safety
- GEHI and Health Insurance Department, Accountant General and Ministry of Health & Seniors
- Human Resources Department, Cabinet Office
- Marine & Ports, Ministry of Tourism Development & Transport
- Parks: Maintenance, Ministry Environment & Planning
- Public Lands & Buildings: Maintenance, Ministry of Works & Engineering
- Public Transportation, Ministry of Tourism Development & Transport
- Transport Control, Ministry of Tourism Development & Transport
- Youth, Sport & Recreation, Ministry of Community & Cultural Development
- Vehicle & Equipment Operations and Maintenance, Ministry of Works & Engineering.

A detailed analysis of each of the Departments listed here is outlined in the Privatisation & Outsourcing section of this report, beginning on Page 78.

## PENSIONS, RETIREMENT LEAVE AND GOVERNMENT HEALTH: Securing our Future

### Pensions

Like many other countries, Bermuda is struggling to address the impact that an ageing population is having on the social insurance scheme. The “pay as you go” model has been dismantled by demographic shifts. The Island’s challenge is compounded by a declining workforce and a declining birthrate.



Pension schemes for Government employees and Parliamentarians are close to \$1 bn underfunded. Government cannot make that amount up in the foreseeable future.

In addition, the contributory pension scheme on which Bermudians rely for retirement income was \$2 bn underfunded as at August 1, 2011.

The stark reality is that promises made regarding pensions will have to be broken.

Having said that, the SAGE Commission’s recommendations are designed for the burden to be shared by the community, and by participants of the pension plans, which we believe is the fairest practice: the onus for providing for a community’s retirement is adopted by everyone in the community.

However, without immediate changes to the manner in which pension schemes are funded and the quantum of the benefit provided, the effect could be devastating. The related debts could cripple Government, and younger generations would shoulder a terrible financial burden.

The SAGE Commission looked at three pension plans, all of which are underfunded and all of which will require changes to their contributions and/or benefits if promises of some amount of a pension at retirement are to be kept:

**Bermuda Contributory Pension Fund** – the social insurance scheme into which all Bermudians contribute

**Ministers and Members of the Legislature Pension Fund** – for Government Ministers and Members of Parliament

**Public Services Superannuation Fund** – for employees of Government

The Commission is recommending adjustments that will keep schemes operating while maintaining a good level of benefit for current and future retirees:

1. The **Bermuda Contributory Pension Fund** faces the challenge of a lower ratio of workers to pensioners. This scheme is 43% funded, the underfunded portions amount to \$2,066 million. Left in its current structure, workers would have to pay ever-increasing amounts in contributions for people who are retired. This is an untenable option.

We recommend that contributions increase at 3% more than benefits increase. In addition, a strategy should be implemented immediately for a graduated increase in the retirement age to 68, (with an increase in the age of retirement to age 70 likely to be necessary in the future), in the same manner as has been done in a large number of OECD countries.

2. The **Ministers and Members of the Legislature Pension Fund** is more generous and more costly than the plan provided to Government employees. It is currently 34% funded. In its current form, the unfunded portion of \$23 million will only increase dramatically over the coming decades.

We recommend changing the scheme from Defined Benefit to Defined Contribution by modifying the benefits, and topping up the assets with the \$15 million remaining shortfall.

Under the Defined Contribution scheme, the participant and Government each contributes 5% to the fund. Each participant has choices as to how the fund is invested, and at retirement will receive the accumulated value in the form of an annuity.

3. In its current form, the **Public Services Superannuation Fund** (for Government employees, Police, Fire, Prison, Judges and quangos) will run out of funds in 2043. As at March 31, 2012, it was 34% funded, the underfunded portions amount to \$973 million. If this scheme were to run out of funds, Government would be required to raise the necessary monies through taxation.

This fund is too costly to continue in its current form.

Changes need to be made sooner rather than later as further delay will result in greater costs or harsher penalties to the participants and retirees.

After extensive consideration, supported by sophisticated actuarial analysis, we recommend the following:

- Modify the benefits, and continue the scheme, with the ultimate intention of shifting to Defined Contribution (DC). While an immediate shift to a DC scheme was suggested by members of the public attending SAGE Commission meetings, such a move would be too costly. It would require at least \$424 million in additional funding and, given the current economic environment, this option is not realistic.
- However, when the funding ratio in the scheme increases to a sufficient level, the option of moving all participants into a DC scheme should be reevaluated.
- Most benefit changes should take place in a graduated manner so as to have the least impact on those at or near retirement eligibility. Necessary benefit changes include:

- o Use final 5 years' salary to calculate benefits
- o No cost of living adjustments
- o Increase the retirement age from 60 to 65 (55 to 60 for special groups)
- o Implement retirement factors for other retirement ages. For example, if a person takes early retirement, he or she would receive a reduced pension with reduced benefits.

## Government Employee Pre-Retirement Lump Sum Leave Benefit

Government's current **Pre-Retirement Leave** policy allows Government employees to claim full retirement benefits upon retirement. There are a number of provisions in this policy that represent unnecessary expense (for example, benefits are calculated based on the most recent salary just before retirement, regardless of how short a period of time that salary has been earned).

The SAGE Commission recommends that the Collective Bargaining Agreements governing the payment of this benefit be renegotiated to provide the following:

- Determine the accrued benefit for each active employee as at a Specified Date (SD) based on the current rules and freeze the benefit to be paid to active employees when they retire and when/if they become eligible to receive the benefit (i.e. calculate and freeze the amount to be paid based on period of service up to the SD and based on salary levels at the SD).

This would save potentially \$10,027,044 dollars in future cash outflows and immediately remove this amount of unfunded liability from the Statement of Position of the Consolidated Fund, based on March 31, 2012 data. This number will of course change based on the data used at the SD.

## Government Employee Health Insurance (GEHI)

The Commission reviewed the Government Employee Health Insurance (GEHI) Retirement Benefit provisions as provided for in the Government Employee Health Insurance Act 1986. The Commission did not look at the costs and provision of other health benefits provided to Government employees within GEHI.

At present, the Government administers the GEHI health care plan and, in addition to providing medical insurance benefits for active employees, provides continued coverage for retirees and their eligible dependents upon retirement.

The annual cost of this medical coverage after retirement is currently shared equally between Government and the retiree. Contributions paid by Government for Fiscal 2012, amounted to \$6.5 million and is estimated to be \$ 8.4 million for Fiscal 2014.

As of March 31, 2012, the actuarially determined Accrued Benefit Obligation for this benefit was \$249.9 million and is 100% unfunded. This liability continues to increase and by March 31, 2013, amounted to \$269.4 million. It is estimated to reach \$288.8 million by March 31, 2014. The annual cost of this benefit is paid for from the Government's Consolidated Fund each year.

The Commission recommends that the following changes be made to this benefit:

- Establish a FIXED amount to be paid annually on behalf of current retirees equal to the amount currently paid by Government for this benefit for the retiree, their spouse and any dependents.

- Change the existing rules so that only the present spouses and dependents of current retirees are to benefit if the retiree dies. If a spouse subsequently remarries on the death of a retiree, then the spouse and any new dependents will no longer be eligible for any health benefits. The same rule will apply to any new retirees in the future.
- Cease providing health benefits for new retirees EXCEPT allow a 7-year Declining Grandfathering benefit.
- New retirees would NOT be eligible for any spouse or dependent retirement health benefit BUT could remain in the GEHI plan, paying 100% of the premium for the Spouse and any dependents.

This would save potentially \$169,494,500 in future cash outflows and immediately remove this amount from the Statement of Position of the Consolidated Fund, based on March 31, 2012 data. This number will, of course, change based on the data used at the time that the change is made.

## CHOOSING THE RIGHT GLIDE PATH

A glide path is the path prescribed for an airplane to make a safe landing. At the public meetings held in May and September, the SAGE Commission used the analogy of a glide path to describe the critical need to make decisions about the Bermuda Government that will not put the country in jeopardy.

In the context of the SAGE Commission's final report, we are using this analogy to outline a plan for eliminating the deficit of the Bermuda Government that will not create undue financial or social stress for the country.

The size of the deficit and the state of the Bermuda economy are such that a one-off large expense reduction would have too detrimental an effect on the economy and, just as importantly, on affected workers.

Therefore, the SAGE Commission's glide path provides for a time frame for expense reductions that Bermuda's economy can withstand. The reductions are also designed to minimise the negative effects on the Bermuda economy and yet achieve meaningful reduction over a short period of time.

The Commission's plan also provides a period of time for the revenue side of the economy to catch up with the expense reductions.

Overall, the annual cost of running the Bermuda Government must be reduced by \$320 million. With the right leadership in place, we believe this can be achieved in four years.

We believe that expense reductions in the first year should equal \$65 million; in the second year, they should equal \$80 million; in the third year, they should equal \$85 million; and in the fourth year, they should equal \$90 million.

These annual reductions total \$320 million.

The Commission's glide path calls for the elimination of expenses in each financial year in the following order:

- o Elimination of all unnecessary activities and programmes; then
- o Abolition of all budgeted but unfilled posts; then
- o Reduction of general (non-wage) operating expenses, particularly non-Bermuda dollar expenses; then

- o Reduction of grants and contributions; then
- o Reduction of personnel costs in the following manner:
  - Termination of poor performers; then
  - Requiring personnel who are past retirement age to retire; then
  - Offering early retirement incentives to those eligible to retire; then
  - Salary and wage reductions applied least to the lowest paid employees and more to the highest paid.

The Commission believes this phased process represents the fairest way to approach expense reduction with the least risk to the Bermuda economy and its workforce.

## IN SUMMARY

Events that present true hardship and adversity to a country are, thankfully, few and far between.

But when these events occur, their impact is deep and long lasting. Recovery depends on the spirit of a country's people and the nature of their resilience.

The financial challenges facing Bermuda are large, but they are not insurmountable. The decisions that have to be made are difficult, but they will be fair and equitable – if due attention is paid to the findings and recommendations in this report: they are the sum total of the community's dedicated focus on an issue that, left unaddressed, threatens Bermuda's sustainability.

Bermudians are engaged. They want to understand what will be required of them to address the Island's financial crisis.

The SAGE Commission believes that we can come out of this crisis stronger, wiser and better prepared for other challenges that will inevitably face us in the future.

We can do this by doing what we always do when confronted by a battering storm: we ignore the social, political and economic barriers that so often divide us, and we come together.

## Let's come together.



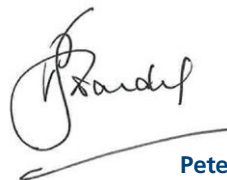
**Brian Duperreault,**  
*Chairman*



**Cathy Duffy**



**Kenneth Dill**



**Peter Hardy**



**Don MacKenzie**



**Kim White**

*October 31, 2013*

# Methodology

## THE SPENDING AND GOVERNMENT EFFICIENCY (SAGE) COMMISSION

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The SAGE Commission Act 2013 (“the Act”) was officially gazetted on April 15, 2013 and included the terms and regulations relating to the establishment of the SAGE Commission (“the Commission”).

In accordance with the legislation, the Commission’s primary objective was to focus on reducing spending and increasing efficiency throughout the Bermuda Government.

During the six-month timeframe allocated to the Commission by Finance Minister the Hon. E.T. “Bob” Richards JP, MP, its members evaluated and analysed the operations of Government in line with international best practices to determine the best means of structuring Government, streamlining Government processes, improving delivery of services and introducing cost saving measures and greater transparency.

By design, and within the legislative context established by the Act, the Commission’s process was an inclusive, transparent one in which the community and members of the Civil and Public Service were invited to participate.

## SAGE STRUCTURE AND RESOURCING

Realising the enormity of their responsibilities, Commission members – in accordance with Section 9 of the Act – appointed a team of passionate and diverse individuals to assist in achieving their mandate. The Commission established four committees and directed each of their Chairs to focus on a critical area:

- Performance
- Streamlining
- Measurement & Metrics
- Privatisation & Outsourcing

Committee members representing a diverse skill set were drawn from a broad cross-section of the Island’s public and private sectors.

The Commission also established two working groups: one to review Government Pension plans; and the other to conduct an Economic Analysis of the effects the Commission’s recommendations might have on Bermuda’s economy.

To support the work of the committees mentioned above, analysts were seconded from the local accounting firms of:

- Deloitte
- Ernst & Young
- KPMG
- PricewaterhouseCoopers

## GOVERNMENT DATA SOURCES

The Commission accessed numerous relevant reports and other data representing in excess of 30,000 pages.

Many of these reports and data, together with their recommendations, had been prepared by Government employees, but had not been acted upon.

A small sampling of the reports and data reviewed by the Commission includes:

- The Bermuda Constitution Order 1968
- Conditions of Employment and Code of Conduct (for all Civil Servants)
- Public Service Commission Regulations (for all Civil and Public Servants)
- Financial Instructions
- Six Collective Bargaining Agreements
- A Review of the Civil Service in Bermuda in 2011 (National School of Government)
- Untangling the QUANGOS
- Government reports; prepared by Civil and Public Service or commissioned from external parties

Confidential meetings were held on an individual basis with numerous Government employees, including Permanent Secretaries, Heads of Departments, managers, and rank and file members of both the Civil and Public Service.

The Commission also requested pertinent information, (e.g. the number of individuals employed by the Government). These data were provided to the Commission by Government officials.

As a result of this process, tangible and achievable recommendations were gleaned from Government data sources and from individual private meetings.

## INPUT FROM BERMUDA PUBLIC AND OUTSIDE SOURCES

Meetings were held with numerous organisations, and extensive private interviews were held with individuals. Letters were written to various institutions and individuals seeking input.

The Commission hosted six public forums at which members of the public offered their ideas and recommendations for achieving an affordable and sustainable government.

When necessary, the Commission requested assistance from external resources, such as the UK Defence Academy (formerly the National School of Government), and from external actuarial agencies.

To further engage the Bermuda public in its review process, the Commission organised an Awards Programme in which members of the community as well as the Civil and Public Service were invited to submit their best ideas for reducing the cost of running the Bermuda Government.

The Commission received more than 400 written submissions and awarded \$2,500 to each of five participants; the entry judged the best overall was awarded an additional \$10,000. The funds for these awards were donated by the private sector.

## **INPUT FROM GOVERNMENT, ELECTED OFFICIALS AND REPRESENTATIVES OF THE UNIONS**

The Commission met with His Excellency the Governor, the Members of the Cabinet and the members of the caucuses of One Bermuda Alliance (the Governing Party) and the Progressive Labour Party (the Loyal Opposition).

Meetings were held with the executives of the unions that represent Government employees.

The Commission hosted two round-table meetings with the rank and file members of the unions. Members provided wide-ranging suggestions and comments related to processes for improving efficiency and accountability within Government.

## **VALIDATION OF FINDINGS**

The Commission's findings were validated in a number of ways:

- A finding needed to come from more than a single source; this was particularly relevant in the interviews with Government employees. In this regard, the findings represented in this final report are broad-based and have consensus.
- Findings within reports were validated by other sources, including interviews with Government employees.
- Where relevant, findings based on financial information or data were reviewed by the Commission's team of analysts, who either substantiated the material or rejected it.

## **A COLLECTIVE EFFORT FOR THE GREATER GOOD**

Over the course of the last six months, more than 70 members of the Bermuda community volunteered thousands of hours to assist the Commission with its task of reviewing the Bermuda Government.

These individuals were devoted to helping Bermuda recover her competitiveness and to securing the Island's well being for future generations.

From the outset, the SAGE Commission was committed to establishing a transparent, inclusive process. Commission members feel this objective was achieved.

As a result, the findings and recommendations in this report are a reflection of how the community feels the cost of running the Bermuda Government might be addressed.



# Recommendations

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## PERFORMANCE: The Critical Paradigm Shift

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The skills that were key to leading the Civil and Public Service in the past are not necessarily the skills required to lead in the future. This is particularly relevant when considering the challenges facing Bermuda today and how vastly different they are from ten, or even, five years ago.

It is essential that Government continually assess and evaluate current and future leadership skills and put in place development, succession and recruitment plans to ensure that these skills are present in Government at all times.

The Commission has identified that the Civil and Public Service does not have sufficient leadership skills and capabilities at the right management levels, nor are the necessary skills and capabilities present in an appropriate number of individuals, to meet the challenges that Bermuda is facing today.

The SAGE Commission believes there is no greater imperative facing Government than to establish a culture of performance throughout the Civil and Public Service. Without effective leadership, no meaningful change will be effected.

This section sets out key observations, findings, conclusions and recommendations to address this fundamental issue.

It is important to note that it was not the Commission's remit to conduct performance reviews or to single out the performance of any individual members of Government.

### ***Ten Key Findings***

The SAGE Commission's top ten findings related to performance are as follows:

1. **Weak Leadership** – *This is the key overall finding of the Commission. All other findings listed below are a direct result of weak leadership; however, they are worthy of mention in their own right.* While the Commission was impressed with the talent and ability within Government at both the senior management and staff levels, a lack of effective, accountable leadership undermines the potential for these "star" performers.  
  
Leaders at the top of Government, both employees and elected officials, must be strong and effective.
2. **Inability to implement change and fix problems** – Solutions to many of Government's challenges have already been identified by leaders and managers, by internal or external consultants or by others such as the Internal Auditor or Auditor General. However, leadership has failed to implement many of these solutions, and so the problems persist.
3. **Lack of opportunity and succession planning** – Without leadership's commitment to talent management, "stars" do not rise and underperformers inhibit opportunities for their co-workers. Government workers, like all employees, seek opportunities and recognition.
4. **Lack of alignment and transparency of outcomes** – Leaders have not made Ministry goals and objectives readily accessible to the public; regular reports on performance are not provided to taxpayers. Policies, goals, objectives and measures are not clearly linked, so it is difficult to differentiate success from failure.

5. **Lack of accountability** – The SAGE Commission found many examples of underperformance by Permanent Secretaries, Directors, managers and employees, but few examples of consequences for underperformance or even rule-breaking. Leaders have allowed a lack of accountability at the top to set a poor tone for Government employees.
6. **Insufficient utilisation of checks and balances** – Government’s structure includes controls to ensure adherence to rules and policies, including the Audit Committee, Auditor General, Financial Secretary, Internal Audit, Management Consultancy Services, the Office of the Ombudsman, Procurement Office, the Public Accounts Committee of the House of Assembly, and the Public Service Commission. While some are very effective, others are ignored by leaders or lack “teeth”, allowing rules to be bent or broken without consequence.
7. **Lack of effective performance management systems** – There has been a failure to put in place an effective performance management system. The existing system is manual, ineffective and not taken seriously by most Government employees, including leaders. It is seen as an administrative requirement, a “check the box” exercise. It does not perform its role of managing the performance of employees.
8. **Lack of performance culture** – Leaders have allowed a “don’t rock the boat” management and employee culture to prevail, so that frank conversations about performance are avoided, high performers are not rewarded, and non-performers are transferred from one Department to another or allowed to coast, leaving their coworkers to do their work. This is unfair to hard workers and erodes employee morale.
9. **Internal services are weak** – Leaders have failed to create effective internal services including Human Resources (HR) and Information Technology (IT). These functions are perceived to be ineffective and are considered a frustrating hindrance rather than a support to departments.

The HR and IT functions are uncoordinated and bogged down by ineffective processes and systems. There is little evidence of intentional efficiencies through a “joined up” Government structure and services.

10. **Effective policies exist but are not utilised** – Effective policies such as the Codes of Conduct exist for both employees and Ministers, but there is a lack of full awareness of the guidance they offer. They are not fully utilised or enforced to enable sound decision-making and financial accountability. Improvements to these policies have been drafted and stand ready to be implemented.

## UNDERSTANDING THE CIVIL AND PUBLIC SERVICE

The following explanations may be useful in understanding the observations, conclusions and recommendations outlined in this section of the SAGE Commission's final report:

The **Conditions of Employment and Code of Conduct (CECC)** is a document issued under the authority of His Excellency the Governor on the recommendation of the Cabinet.

It replaced **General Orders** and, among other things, outlines the structure of Government.

The document summarises the vast scope of the Civil and Public Service and explains the roles and reporting relationships between the elected Government and officers of the Civil Service.

It also sets out basic principles that guide managers and officers regarding the terms and conditions of employment including levels of authority, expectations, impartiality, integrity, effectiveness and efficiency.

All employees of the Civil Service are referred to as officers. The Public Service Commission Regulations 2001, the Conditions of Employment and Code of Conduct, and the current Collective Bargaining Agreement between the Government and the Bermuda Public Services Union constitute each officer's contract of service with the Bermuda Government.

The **Ministerial Code of Conduct** is a guidance memorandum for Cabinet Ministers and is usually given to a Minister upon first appointment to office.

The document outlines:

- the manner in which a Minister is appointed,
- how many Ministers may be appointed,
- how many may serve in the House of Assembly and in the Senate,
- the relationship between Ministers and Civil Servants,
- guidance on how a Cabinet Memorandum is prepared and whether it is a Decision Paper, a Discussion Paper or an Information Paper,
- the importance of the Minister conferring with any of his colleagues whose portfolio, responsibilities may be impacted by any decisions to be made, and
- the doctrine of Collective Responsibility.

**Financial Instructions** is the name of the document which applies the controls over the process by which individual Ministries obtain the money to carry out their mandated responsibilities.

Observance of the procedures outlined in the document generally fall to the Head of Department, but the Minister is also expected to have more than a passing familiarity with the document.

The Financial Instructions document sets out:

- strict lines of accountability on the part of a Minister and his or her Head of Department,
- the uses for which funds appropriated by Parliament can be used,
- the circumstances in which funds from one Department can be transferred to another or for another purpose within the Ministry (usually with the concurrence and approval of the Minister of Finance),
- those actions involving Government funds which cannot be taken, and
- generally, penalties which arise where an individual has breached Financial Instructions.

**Civil Service Executive (CSE)** is the name of the aggregation of Permanent Secretaries that should

meet on a weekly basis. The Civil Service Executive has three primary functions:

- to service Cabinet
- to coordinate policies and strategies across Ministries
- to ensure the strategic delivery of the political agenda

CSE meetings are currently chaired by the Secretary to the Cabinet, who has dual responsibility for the management of the Civil Service.

In the past, when there was a Secretary to the Cabinet and a Head of the Civil Service, these individuals co-chaired CSE meetings.

## How is Government Currently Performing?

While the SAGE Commission's mandate was to identify areas where performance can be improved, the Commission does not want to imply that all of the Civil and Public Service is underperforming.

In fact, there are many examples of strong performance, leadership and innovation in Government. We feel these stories should be told more often as a part of the Bermuda narrative.

We would like to highlight some examples of strong performance:

- Public servants have been described by a UK consultant as "non-corrupt, impartial and honest". In our SAGE Commission interviews, we met numerous public servants at all levels who are intelligent, hardworking and committed. We feel that the skill and talent among rank and file Government employees, in particular, often goes unrecognised and should be highlighted and celebrated.
- Interviews with Heads of Departments revealed that many Heads have strong management and leadership skills and have created high-performing teams.
- The Transport Control Department (TCD) has proven that self-improvement is possible. TCD has evolved from a much-bemoaned service requiring a full day's wait for a driver's license, to a quick and pleasant experience, winning the Best of Bermuda award for Government Service in 2009 and 2012.
- The Department of Immigration takes only 8 business days to issue a Bermuda passport, which is excellent by international standards (4-6 weeks in the USA and at least 3 weeks in the UK for the standard service ).
- In other areas, public servants have innovated to solve challenges. Traffic wardens now direct morning traffic at Spurling Hill, allowing for "the redeployment of a highly trained police constable to attend calls for service".

There are also examples of underperformance within the Government:

- The Auditor General reported in early 2013 that there were approximately 34 entities in arrears with Financial Statements. This represents 161 years of unaudited financial statements covering the period from 2003 to 2012. This lack of timely reporting prevents management action and removes any possibility of public transparency.
- The largest outstanding audit is for the Contributory Pension Fund which has not been fully audited since 2005. (This is the fund into which the Bermudian public and private sector workers pay, and from which they expect to receive a pension). This lack of reporting is alarming because "weak internal and accounting controls and delayed audits create opportunities for misappropriation and fraud to occur and remain undetected".

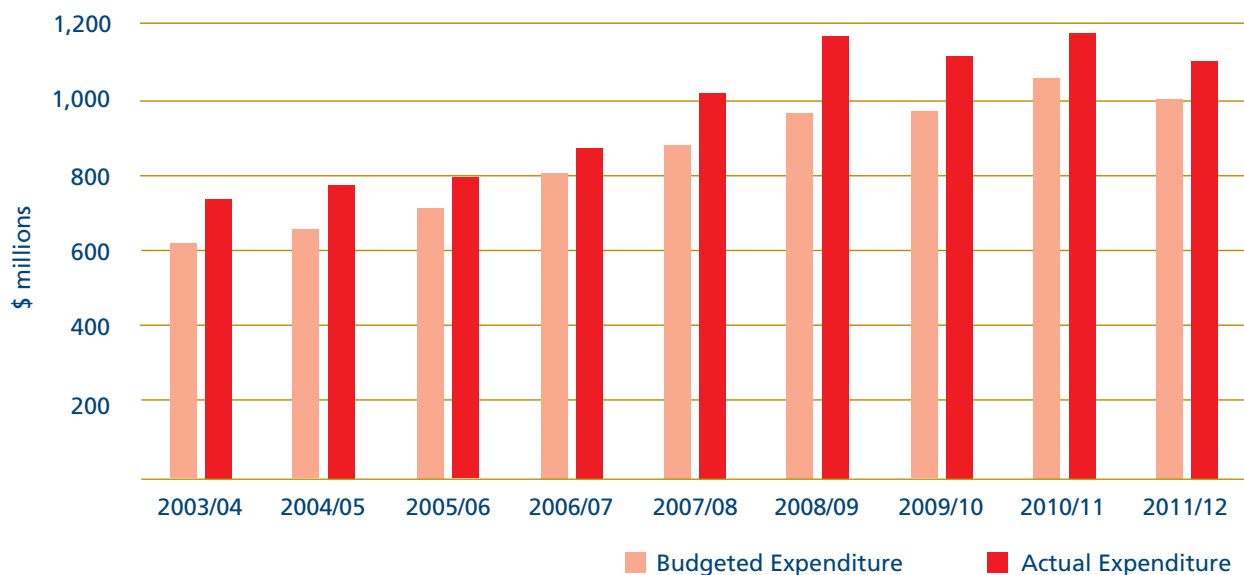
- The Civil Service Executive, a body of senior Civil Servants that is tasked with negotiating the objectives of Cabinet and ensuring that these objectives are carried out by the various Ministries, does not meet regularly and does not produce meeting minutes.
- The Government's financial rules (Financial Instructions) have been broken many times, with no consequences for those responsible. This has been highlighted publicly by the Auditor General, yet sufficient corrective action and discipline have not been taken.
- There was a total of approximately \$204 million in outstanding Accounts Receivable as at March 31, 2012. Roughly 80% of this amount is shown under the heading "Office of the Tax Commissioner". The Provision for Bad Debts as at March 31, 2012 was \$65 million; five years earlier, the Provision was only \$23 million.
- Recommendations, including excellent analyses from Government's Management Consultancy Services and the Central Policy Unit of the Cabinet Office, as well as from external consultants, are rarely implemented.
- On the whole, the culture of the Bermuda Government does not reward employees who are the highest performers and does not confront those employees who are the poorest performers.

## Budget Overruns

The SAGE Commission's recommendations regarding performance relate to Government employees fulfilling their role and performing their duties.

A fundamental measure of performance is meeting annual budgets, both revenue and expenditure. The Commission believes that annual operating budget overruns would cease if Government employees were performing to the standards set out in Financial Instructions, the CECC, and other guiding policies.

### Budgeted Expenditure vs. Actual Expenditure 2003-2012



*What this shows:* Expenditure has not been controlled.  
Actual expenditure has exceeded budget for the last nine years.

It must be acknowledged that the responsibility for these budget overruns is shared by both Government employees and Government Ministers. There is evidence that Ministers have exerted influence in encouraging – or at least not discouraging – a lax fiscal environment.

We accept that occasional unforeseen events will require budgets to be adjusted. However, it is our opinion that it is statistically improbable that sudden events have occurred with such frequency and severity over the last 10 years as to warrant the expenditure budget to be missed. Even more alarming is the variance by which the budget expenditures have been underestimated on a consistent basis.

## **OBSERVATIONS, CONCLUSIONS AND RECOMMENDATIONS**

### **1. Leadership and Succession**

Ultimately, the leadership of the Civil and Public Service is responsible for:

- performance management across all departments,
- compliance with rules and regulations such as Financial Instructions and the CECC,
- succession planning and talent management,
- setting the tone from the top,
- setting and managing priorities, and
- setting and managing disciplinary standards.

Leadership style and adherence to equitable disciplinary policies determine the culture of the organisation. It is a key underlying driver of employee behavior and performance.

It is the SAGE Commission's position that there is a grievous lack of leadership and accountability at the top of the Civil and Public Service.

#### ***1.1 Secretary to the Cabinet and Head of the Civil Service***

##### **Observations**

Currently, the responsibility for leadership and standards of Government employees' performance resides with the Secretary to the Cabinet who doubles as the Head of the Civil Service, notwithstanding that he has delegated certain responsibilities to an Assistant Cabinet Secretary.

While officially accountable to the Governor, the Secretary to the Cabinet does not report directly to anyone. He or she is appointed by the Governor following a selection process laid down in Section 90 of the Constitution that includes the Premier and the Public Service Commission.

However, in practice, none of these offices assesses the Secretary to the Cabinet's performance or holds him or her to account for the performance of Government employees.

The Secretary to the Cabinet is exempt from performance appraisals and is not required to report his or her performance to the public.

The Secretary to the Cabinet is responsible for the management of meetings held by the Civil Service Executive (Permanent Secretaries and Assistant Cabinet Secretaries) as well as decisions on disciplinary action of Civil Servants.

As is noted elsewhere in this section, the SAGE Commission has consistently heard in interviews with

management that the Civil Service Executive does not meet regularly and does not serve a useful purpose.

The SAGE Commission heard account after account from all levels, including the rank and file of the Civil and Public Service, that there is a lack of confidence in the leadership at the top of the Civil and Public Service. The buck stops at the top, and this means the Secretary to the Cabinet. The post holder must urgently address this lack of confidence.

## Conclusions

From the many accounts received, there is an absence of leadership and accountability which permeates the hierarchy of the Civil and Public Service and this negatively impacts the performance and accountability of all Government employees.

No meaningful change will take place in the Civil and Public Service without real change in leadership positions and an unwavering commitment by them to accountability and performance.

## Recommendations:

### Secretary to the Cabinet and the Head of the Civil Service

The SAGE Commission recommends that the duties of the Secretary to the Cabinet, as currently carried out, be shared by two equal positions: the Secretary to the Cabinet and the Head of the Civil Service.

Both positions would work under the policy direction of the Premier.

Each position should have a direct reporting line to the Public Service Commission and a dotted reporting line to the Premier.

This will return leadership of the Civil and Public Service to two separate and distinct roles, as existed after the Bermuda Government adopted recommendations from the 1999 Government Employees Review.

The division of senior responsibility would see the Head of the Civil Service as the line manager for the Financial Secretary and the Permanent Secretaries. The post would have direct functional responsibility for Government-wide support services including Management Consultancy Services, e-Government, Statistics, Communication & Information, Information Technology, Human Resources and project management.

The Secretary to the Cabinet would continue to be the Premier's principal policy adviser. The post holder would be responsible for servicing the Cabinet and would have functional responsibility for the Central Policy Unit and administrative responsibility for Government House and the London Office.

The creation of the Head of the Civil Service's role at a level equal to the Secretary to the Cabinet is absolutely necessary to ensure that this position is empowered to carry out its critical responsibilities.

The Secretary to the Cabinet and the Head of the Civil Service must co-Chair the CSE.

Historically, the post of Financial Secretary has been graded two steps below the Secretary to the Cabinet. The two positions were then changed to the same grade. We see no justification for this and recommend that the post of Financial Secretary be re-graded accordingly.

In addition, fixed term contracts should be established for the positions of Secretary to the Cabinet, Head of the Civil Service, Financial Secretary, and Permanent Secretary.

The term of these contracts should be for three years only. The Public Service Commission should determine if renewal of contracts is in the best interest of Bermuda. This will allow only high performers to remain in these critical leadership positions over the longer term.

## **Recommendation:**

### **Process for Appointment of a Head of the Civil Service (HoCS)**

- The Premier should direct the Secretary to the Cabinet to separate the role of Head of the Civil Service from the role of Secretary to the Cabinet, with the HoCS to be of equivalent rank and status to the Secretary to the Cabinet.
- The Premier should direct the Secretary to the Cabinet to draft two job specifications which take into account the recommendations of the SAGE Commission to be approved by the Public Service Commission: one for the Secretary to the Cabinet (with responsibilities focused on management of the business of the Cabinet and acting as the Premier's chief policy adviser, per Section 69 of the Constitution), and one for the HoCS. The Head of the Civil Service will have the responsibility for Shared Services, Human Resources and the administrative responsibility for the Public Service Commission as well as for implementing those SAGE Commission recommendations that impact those areas that fall directly under him or her (i.e. Government employees).
- The two positions should be advertised as soon as possible (the current Secretary to the Cabinet retires on November 30, 2013). The Secretary to the Cabinet position is advertised within the Civil and Public Service only; the selection process for the position is determined by the Constitution.
- The position of Head of the Civil Service should be advertised publicly by the Public Service Commission.

In examining personnel management in the Civil and Public Service, it appears that senior Civil Servants are transferred to Assistant Cabinet Secretary posts when no other suitable position can be found for them. The administrative tasks carried out by many of these employees do not merit the top pay of these posts. This work could be done more cost efficiently by mid-level staff.

The SAGE Commission therefore recommends that the position of Assistant Cabinet Secretary be abolished.

## **1.2 The Civil Service Executive**

### **Observations**

During interviews conducted by the SAGE Commission, Civil Servants often cited the Civil Service Executive (CSE) as an example of the pervasive lack of leadership in the Civil and Public Service.

The CSE was established as a result of a recommendation in the 1999 Civil Service Review. This management group was initially successful but soon fell short of its intended purpose – both as the body which translates the Cabinet's vision into real Ministry objectives and as a forum where senior members of the Civil Service could meet and jointly discuss the major issues of the day.

The CSE is intended to act as the driving force for how various Government departments prioritise their work for the financial year and coordinate policy across Government.

The leaders we interviewed stated that the CSE is currently ineffective, and is underutilised by the Civil and Public Service leadership. We have been told that there is little strategic planning and no evidence of accountability. Meetings are often not attended by Permanent Secretaries, without consequence. Some decisions are inconsistent with policy and Financial Instructions.

The SAGE Commission believes the CSE is not providing needed, meaningful support and coordination to Heads of Departments.

## ***Permanent Secretaries***

It is clear that the role of the Permanent Secretary is vital to the success of Government employees, yet this role is often a challenging one, caught between managing the expectations of a Minister while also trying to manage the performance of a diverse array of departments. This bifurcated focus leads to what the 2011 Civil Service Review described as “attention to one tends to drive out attention to the other”.

In addition to the sometimes conflicting duality of the Permanent Secretary role, there is a temptation to make a direct comparison between the role of a Permanent Secretary as Civil Service head of a Ministry and that of a division head of a private sector business.

However, there are significant differences: the private sector position is driven by the profit motive and the public sector position is an extension of the political agenda espoused by a Minister.

A division head is expected to maximise the return on capital for a business while a Permanent Secretary is expected to promote a political agenda within the framework of the resources allocated to him.

The relationship between a Permanent Secretary and a Minister also becomes personalised. A Minister’s success and standing as a politician is most often judged by the ability of his Ministry to make achievements on his behalf.

The ability of a Permanent Secretary to translate a Minister’s personal political objectives into reality through successful administration of his Ministry is the basis for judgement of that Permanent Secretary’s skill.

Regarding a Permanent Secretary’s role as supervisor to a Head of Department, it was common in interviews conducted by the SAGE Commission to hear Department Heads state that the guidance they receive from their Permanent Secretary is insufficient; they are often left to determine their Department’s priorities without the comprehensive consultation needed to make informed management decisions.

## **Conclusions**

It is vital that Permanent Secretaries have the competencies necessary to successfully drive the performance of their Departments while being able to satisfy the needs of the Minister they serve.

It is also vital that Heads of Departments, as well as Permanent Secretaries, have the support necessary to manage their Departments effectively and efficiently.

## Recommendations

- The Civil Service Executive must meet weekly and be co-Chaired by the Secretary to the Cabinet and the Head of the Civil Service.
- Attendance must be mandatory for all, including the Secretary to the Cabinet, Head of the Civil Service, Financial Secretary, and all Permanent Secretaries.
- Minutes must be taken and published on the Government web site.
- Permanent Secretaries must be assessed against clear and measurable objectives. There must be key performance indicators, adherence to budgets and Financial Instructions, and management of the overall performance of their Department Heads.
- Permanent Secretaries must be given a one-year time frame to meet these objectives. To quote the 2011 Civil Service Review: *"Those individuals who are competent need to be best placed to exploit their competencies. The mainly competent must have their development needs addressed and their performance closely evaluated. Those who do not meet the demands of the Permanent Secretary role face difficult options: reversion to previous grade (as they did well there); early exits for newcomers; early retirement for those nearing retirement; or redundancy for those for whom no other route is suitable"*.
- A Ministerial Private Office should be created to relieve Permanent Secretaries of the day-to-day tasks associated with Ministers' needs. To again quote the 2011 Civil Service Review: *"We believe that a Private Office would relieve the Permanent Secretary of the day-to-day managing of Ministers (tasks such as detailed briefing, speech writing, intelligent prioritization of the Minister's diary, "gate-keeping", managing the Minister's relationship with the Legislature, progress-chasing of submissions from within the Ministry, etc.). Such a role close to a Minister would be a good one for young Civil Servants who are judged to have the potential for rapid advancement. We believe that such a system would free the Permanent Secretary to develop a closer 'grip' on improving the performance of the Ministry and its constituent Departments; the development of policy options (in conjunction with a rejuvenated Central Policy Unit (CPU)); and driving better delivery and accountability through the system"*.
- Renewal of the contract should be based on the demonstrated ability to meet the requirements of the position. This will allow only high performing Permanent Secretaries to remain in their positions over the longer term.
- The CSE must be tasked with the drafting of the National Strategic plan based on the Government's political objectives. The national strategic plan is to be approved by Cabinet.

We are aware that a Leadership Competency Review was undertaken in 2011 by the National School of Government with 50 of the most senior employees of Civil and Public Service.

We were refused access to this report despite clear statutory authority for such access.

An 18-month Leadership by Design programme was implemented in 2006 with 15 participants; this pilot programme had moderate success and has not resulted in many promotions to more senior roles for the 15 "high flyer" participants.

Whether they use this programme or another one, Civil and Public Service leaders need to use a Talent Management programme to identify and develop high potential employees or risk losing these employees to the private sector.

## 1.3 Government Employees' Capacity for Implementing Change

### Observations

The solutions to many of Government's challenges have already been identified by leaders and managers, by internal or external consultants and by non-Departmental entities like the Internal Auditor.

However, leaders have failed to implement many of the solutions recommended by those who have studied Government, and so the problems persist.

The SAGE Commission was given access to hundreds of reports, many of which were commissioned by Government Departments over recent years. These reports attempted to identify solutions to a wide range of challenges including cost savings at the Post Office, the organisational structure of the Planning Department and a more cost-efficient bus schedule.

Many of these studies were based upon sound analyses, and supported by the relevant Department Head and Permanent Secretary, yet their recommendations were never implemented. The SAGE Commission's interviews with Civil Servants confirmed our observations regarding the fate of these reports.

### *Management Consultancy Services*

Management Consultancy Services (MCS) does not have the authority nor the mandate to monitor and ensure the implementation of recommendations that emanate from their (or other) commissioned reports.

Many reports propose changes that require Cabinet approval. However, according to MCS, the Cabinet Office has not granted monitoring and implementation responsibility to MCS, nor has it assumed this responsibility itself. MCS representatives told the SAGE Commission that the Department developed a monitoring system years ago to allow Cabinet to manage the implementation process, but the system was never implemented.

We have not found evidence of Permanent Secretaries and Department Heads being held accountable for implementing recommendations.

Some Ministries/Departments have chosen to implement a handful of specific recommendations. However, as most recommendations are designed to be implemented in totality and not in isolation, the implementation of a tactical recommendation without the corresponding strategic framework (and vice versa) has not generally produced the intended results.

MCS report that they now provide more follow-up coaching to their clients (Permanent Secretaries and Heads of Departments), to assist with the implementation of any recommendations. MCS believe that this need for coaching as well as the continuing need for organisational and/or strategic reviews in certain Ministries/Departments is illustrative of the management and leadership deficiencies that exist at the Permanent Secretary and Head of Department levels.

The Auditor General's annual reports contain large numbers of recommendations that remain outstanding for several years – in some cases, for as long as twenty years. The following two examples illustrate the inability of Government employees to implement meaningful solutions in a timely manner and the resultant additional costs borne by the taxpayers:

- As early as 1998, the Auditor General noted a problem with respect to tax collection. By 2000, a recommendation to address the issue was accepted but by January 2008 (the final date that an exasperated Auditor General ceased publishing detailed recommendations), a solution was still being worked on.
- In 1993, the Auditor General recommended “that the Department of Social Insurance (Hospital Insurance Commission) should eliminate the numerous accounting and financial control deficiencies that are causing inaccuracies in the Hospital Insurance Fund’s accounting records and delays in its financial reporting”. Seventeen years later, in December 2010, the Auditor General noted in Appendix 2 of her report the same recommendation, observing it had not been satisfactorily resolved. The Auditor General also reported that while her audit of the Fund’s financial statements as of March 31, 2005 were substantially completed, annual reporting was still in arrears.

## Conclusions

With no formal ownership of implementation management (centralised or otherwise), it is almost impossible to objectively determine if, when, or how many report recommendations have ever been implemented.

With respect to just a few of the baseline reports the SAGE Commission reviewed, Management Consultancy Services have been able to confirm only the following statistics with any degree of certainty:

REPORT	YEAR	MINISTRY/DEPT ETC.	TOTAL # OF RECS	# RECOMMENDATIONS FULLY or PARTIALLY IMPLEMENTED	IMPLEMENTATION RATE
Untangling the Quangos	2003	Bermuda Monetary Authority	5	1	20%
Untangling the Quangos	2003	Small Business Development Corporation (SBDC)	4	0	0%
Untangling the Quangos	2003	Pension Commission	4	0	0%
Untangling the Quangos	2003	Public Transportation Board	4	1	25%
Untangling the Quangos	2003	Bermuda College	3	0	0%
Transforming Governance & The Public Sector			21	4	19%

Source: Management Consultancy Services, Government of Bermuda

## Recommendations

- When reports are commissioned, a Department Head or Permanent Secretary must be identified as the “project sponsor”, responsible and accountable for implementation of a report’s recommendations.
- Recommendations to be monitored should include those from internal and external consultants, the Auditor General, Internal Audit, and the Office of the Ombudsman.
- Management Consultancy Services’ monitoring system should be implemented immediately.

- Where recommendations are not selected for implementation, the reasons should be justified and documented by the relevant Permanent Secretary or Head of Department and sent to the Head of the Civil Service for confirmation.
- In order to improve its performance, Government must build the capacity to implement change. Management Consultancy Services should be empowered to support, monitor and report on implementation of recommendations from studies produced across all of Government.
- Management Consultancy Services should make an annual report to the Head of the Civil Service on the following:
  - o Reports commissioned
  - o Cost of each report
  - o Project sponsor for each report
  - o Progress on the implementation of the recommendations of each report
- The Head of the Civil Service should ensure that this report is published on Government's web site. Taxpayers fund these studies and reports and have the right to know how their money is being spent.

## ***1.4 Succession Planning and Talent Management***

### **Observations**

Whereas retirement planning focuses on the needs of the individual but not the consequences for the employer (for example, knowledge transfer), succession planning focuses on the needs of the organisation, building a structure to identify potential candidates for senior positions and formulating a plan to ensure that the candidates are provided with the proper tools to transition to roles with increased responsibility.

Civil and Public Service leaders have failed to put effective succession planning in place across Government.

Most Heads of Departments have expressed an interest in serving as a Permanent Secretary but are unsure of the formal process for appointment.

Civil and Public Service leaders have failed to put an efficient Talent Management programme in place, underscoring the absence of a medium to long-term Human Resources strategy.

Such a strategy would help to retain high performance employees by making it clear how future leaders are selected and would ensure that, when the need arose, there would be a smooth transition to new leadership.

### **Conclusions**

There is an absence of consistent succession planning in the Civil and Public Service, which leads to few managers and Heads of Departments planning their career paths to becoming a Permanent Secretary or exploring other opportunities to advance to more senior roles.

## Recommendations

- Under the direction of a reconstituted Human Resources Department and the leadership of the Head of the Civil Service, formalise a Succession Planning Policy.
- Enforce Permanent Secretary performance management processes to identify future opportunities for Heads of Departments.
- Introduce Talent Management programmes to identify high potential senior managers throughout Government. Develop lateral promotion options, cross Ministry placements, and other opportunities for employee development.

## 2. Structure and Governance

### 2.1 Ministerial Override

By its basic structure, there is also a natural set of healthy tensions existing between Government Ministers and the senior Civil Servants with whom they interact on a daily basis.

Ministers are charged with seeing that the Cabinet's vision, set out in the Throne Speech and the government of the day's party platform, is understood by the Departments in their Ministries.

Permanent Secretaries and Heads of Departments are expected to see that this vision becomes reality, allowing for constraints of time and budget.

Accounting Officers (generally Permanent Secretaries and some Heads of Departments) must adhere to the strict guidelines set out in the CECC, the Financial Instructions, and the Ministerial Code of Conduct, as well as other policies, regulations and Acts. These leaders are personally accountable for the financial performance of their Ministry or Department.

Problems arise when Civil Servants are directed to carry out activities which contravene the regulatory framework they are bound to uphold and their advice or objections are overruled by a Minister.

## Observations

The Ministerial Code of Conduct (2001) provides guidance to Accounting Officers in situations where they are concerned that a Ministerial directive may breach the requirements of propriety and regularity, but is neither clear nor strong enough in its language to ensure that the Accounting Officer knows how to proceed.

The guidance to Accounting Officers set out in the Ministerial Code of Conduct 2001 is as follows:

*"12.3 Accounting Officers have a particular responsibility to see that appropriate advice is given to Ministers on all matters of financial propriety and regularity. If a Minister in charge of a Department is contemplating a course of action which involves a transaction which the Accounting Officer considers would breach the requirements of propriety and regularity, he will record in writing his objection to the proposal and the reasons for that objection. If the advice is overruled, the matter should be brought to the attention of the Auditor General. If the Minister decides nonetheless to proceed, the Accounting Officer will request a written instruction to take the action in question and will send the relevant documentation to the Auditor-General. A similar procedure will apply with respect to the Public Accounts*

*Committee if the Accounting Officer wants to ensure that the Committee will not hold him personally accountable for the action being taken”.*

Revised versions of both the Ministerial Code of Conduct and the CECC (renamed “Public Service Code of Conduct”) were drafted in 2012 to address shortcomings, but were not implemented due to the change in Government.

The draft Public Service Code of Conduct 2012 cross references to the Draft Ministerial Code of Conduct 2012, Section 10: *“A special protocol exists to cover instances in which a Minister directs a public officer to carry out an action which, although not illegal, does potentially involve the Accounting Officer breaching the above responsibilities. Details of the steps the Accounting Officer should take in such instances are contained in Ministerial Code (section 10)”.*

The draft revised Ministerial Code of Conduct 2012, Section 10, details the written procedures that apply whenever a Department Head or Permanent Secretary believes that an instruction from a Minister may fall foul of the above:

*“10.3 Accounting Officers have a particular responsibility to see that appropriate advice is given to Ministers on all matters of financial propriety and regularity. If a Minister in charge of a Department is contemplating a course of action which involves a transaction which the Accounting Officer considers would breach the requirements of propriety and regularity, represents poor value for money, involves a potential breach of Financial Instructions or involves expenditure which has not been voted in the Appropriation Act he will inform the Minister in writing of his objection to the proposal and the reasons for that objection. He will also copy the correspondence to the Financial Secretary, the Accountant General and the Internal Auditor.*

*“If the Minister decides nonetheless to proceed, the Accounting Officer is obliged to comply with the instruction – provided in doing so the Public Treasury (Administration and Payments Act) 1969 is not contravened – but will request a written instruction from the Minister to take the action in question and will send the relevant documentation to the Auditor General. A similar procedure will apply where the Accounting Officer has concerns about whether the proposed course of action offers value for money. This notification procedure does not justify the Accounting Officer refusing to comply with a Ministerial instruction; it merely enables the Public Accounts Committee to see that the Accounting Officer does not bear personal responsibility for the actions concerned and protects him or her from surcharge”.*

Thus it is clear that there should be a paper trail in place to enable the Accounting Officer to escape from personal liability for the budget overspends. It rests with the Public Accounts Committee to expose the Minister’s decision, if necessary, and recommend actions to be taken on behalf of the taxpayer.

In 2012, then Premier the Honourable Paula A. Cox JP, MP addressed these shortcomings and had these important documents rewritten. The revised editions now address all of the above shortcomings and make it clear how such situations are to be handled.

If implemented, these rewritten procedures would go a long way to improving financial accountability and documentation of decision-making.

However, the revised editions were never presented to or passed by the House of Assembly due to the timing of the Parliamentary session and subsequent change of Government. (See Draft Ministerial Statement to the House of Assembly by the Hon. Paula A. Cox, JP, MP, Premier and Minister of Finance “Update on Public Sector Reform” on the Appendix which is available to view on the flash drive included with this report.)

## **Recommendations**

Immediately implement the 2012 Public Service Code of Conduct and the 2012 revised Ministerial Code of Conduct.

## **2.2 Union Negotiations**

### **Observations**

Government has negotiated some union contracts that grant benefits, such as sick leave and the provision of overtime pay, that are exorbitant and significantly higher than the norm in the private sector. There is no strategic framework for contract negotiations with unions, and there is no standard across the Public Service for negotiating union contracts.

There are six unions representing the approximately 5,300 employees of the Civil and Public Service. Agreements are reached based upon whatever each union can negotiate at the time. Not until the recent Memorandum of Understanding (MOU) between Government and all of the unions was reached in August 2013 had there ever been an “all union consensus” on the terms of the agreements.

There is a growing trend for each union to attempt to negotiate to the highest standard of benefits available across Government. Interviews held by the SAGE Commission revealed that input from line managers is rarely sought prior to finalising union contracts.

Government’s Human Resources Department is responsible for Bermuda Public Services Union (BPSU) workers only. All other Government employees are the responsibility of HR departments or HR representatives in Ministries, Departments, and quangos, which are not necessarily linked to Government’s HR Department.

Managers find it difficult to manage employees with multiple agreements and provisions, and, under the terms of the Collective Bargaining Agreement with the Bermuda Government, BIU workers are not subjected to performance appraisals.

In numerous interviews, the SAGE Commission was told that Heads of Departments and managers were not consulted before agreements were reached and that the resulting agreements were difficult to implement.

Civil and Public Service employees representing Government, as an employer, in negotiations with the unions, are union members themselves. Negotiating with the very union of which they are a member is viewed by many as a conflict of interest.

## Conclusions

Government employees who are members of a union should not be negotiating on behalf of Government with the union of which they are members.

Some of the negotiated provisions with respect to benefits are significantly out of alignment with best practices.

The scale of benefits under the current Collective Bargaining Agreements are financially unsustainable (both wage rate increases and benefits).

All Collective Bargaining Agreements must be reviewed and amended to be financially sustainable.

Where appropriate, standardised benefits should be agreed which reflect best practices. Negotiations should avoid “pattern bargaining”, a practice by which unions use a particular agreement as a model on which agreement for other employees are based.

Union contract negotiations should be aligned with Government’s stated strategic objectives.

## Recommendations

- Government union negotiations with the BPSU should be conducted by an independent body, not members of that union.
- Certain benefits in all union contracts should be harmonised.
- As a standard practice, Heads of Departments and Managers must be consulted prior to union negotiations.

## 3. Performance Management and Accountability

The performance of many individual employees and whole Departments is not effectively measured, analysed and adjusted to improve performance. There is a lack of alignment between Government policy, Ministry-level mission statements, Departmental goals and objectives, and key performance measures of both programmes and employees.

Employees who are high performers are not rewarded or promoted for their performance. Low performers do not face consequences, and are often retained and even promoted.

Government employees are often not recognised for their performance – good or bad. There are examples of serious infractions for which there have been no consequences.

Performance appraisals are not taken seriously and not utilised effectively to develop the Government workforce’s talents and career objectives. Discipline is not applied consistently or as often as required by the CECC as read with the Public Service Commission regulations.

### *3.1 Non-alignment of policies, goals and measures*

#### Observations

The performance of Departments and individuals is hindered by a lack of clarity arising from the absence of vertical and horizontal alignment of policies, goals, objectives and measures. The SAGE

Commission's review of the Budget Book and data from interviews indicate the following:

- Key performance expectations in the Budget Book are not always relevant to the core mission/business of a particular Ministry or Department. Some managers and Departments are working from two sets of performance goals.
- There are many well-defined mission statements, but fewer than 50% of objectives are relevant, measurable and aligned to a specific mission.
- In many cases, outputs rather than outcomes are listed and, while there are a few instances where this is warranted, most performance expectations should target actual impact or, at a minimum, seek to confirm that they are satisfactory to the public or the internal client.
- There are inconsistencies across Ministries in using performance data to enhance effectiveness and drive change.

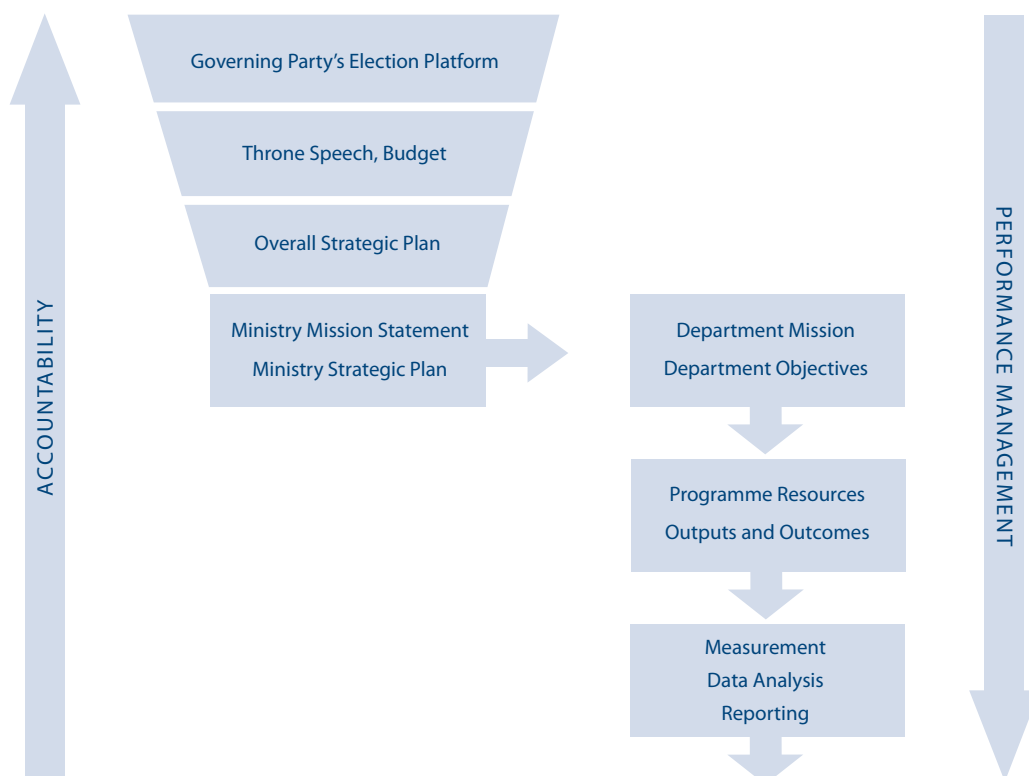
## Conclusions

There is a scarcity of clear guidelines and data with which to measure meaningful outcomes and hold Civil and Public Servants to account.

## Recommendations

Align policies, goals, objectives and measures both vertically and horizontally throughout Government. Detailed recommendations in this regard are outlined in the Measurement & Metrics section of this report.

**Alignment: Accountability/Performance Management.**



Steps towards alignment should include:

- Train all Permanent Secretaries and Heads of Departments in evaluation methods, especially defining outputs and outcomes.
- Conduct a facilitated exercise to ensure that all programmes have defined 3-5 key benefits to society (outcomes). Each outcome must be aligned to Government's vision, the mandate of the Ministry, and the Department's mission and objectives. Input from key stakeholders must be included in the process.
- Map all resources and tasks to the key 3-5 benefits that each Department is expected to deliver and realign or eliminate all resources and tasks that do not relate to the key benefits/core business of each Department.
- Formalise policies and procedures to facilitate regular reviews of performance indicators (especially those measuring outcomes) against actual results.

## 3.2 Accountability for Non-Performance among Leaders

### Observations

The SAGE Commission was provided with many examples of Civil and Public Service leaders defaulting on the critical requirements of their roles by allowing:

- Budget overspends
- Incomplete financial reporting (audits)
- Incomplete annual business plans, some not submitted at all
- Insufficient key performance indicators; those in place are not used to improve performance
- Lack of implementation of recommendations from the Internal Auditor and others
- Disregard for Financial Instructions and the CECC
- Incomplete performance appraisals

The Commission was told many times during interviews with Civil and Public Servants that, frequently, there are no consequences for these infractions. We have seen no evidence to the contrary.

Similarly, we have been told that there are often no consequences for other instances of under-performance or non-performance at all levels of Government.

Page 2 of the 2008 Annual Report of the Auditor General of Bermuda includes the following statement:

*"This year, I have discontinued the practice of showing management responses to the matters raised in the body of my Annual Report. I have done this because some management responses in past years were misleading and far too often responses sought to diminish the importance of the reported problem by stating that it has been, or is being, addressed, when such was not the case".*

In the following year, the new Auditor General addressed this issue with the following statement:

*"The Auditor General is not empowered to implement recommendations. It is the responsibility of the Permanent Secretaries, Department Heads, Board Members and Chief Executive Officers to take these recommendations seriously and to oversee their implementation at the earliest opportunity unless there is a legitimate reason why the recommendations cannot or should not be implemented".*

These reports were presented to the House of Assembly and published on the Internet and yet there has not been any push from the leadership of the Civil and Public Service to remedy the serious issues raised by the Auditors General.

## Conclusions

As leadership sets the tone for the Civil and Public Service, the SAGE Commission has observed that a pervasive lack of accountability and mediocre performance have contributed to the development of a culture in which underperformance is accepted, and contravening the rules is not dealt with in a timely manner or, in many cases, position at all.

## Recommendations

- Government must implement a management and oversight structure that ensures leaders are held accountable for performance with meaningful consequences for poor performance.
- Ministers, Permanent Secretaries and Heads of Departments should be provided with training on the policies that are set out in the Financial Instructions and the CECC.
- Consequences for non-performance should be clear, firm, and enforced.
- Consequences set out in the Financial Instructions (e.g. penalties) and the CECC should be applied. Leadership must make it clear and lead by example to underline the importance of following Financial Instructions and the CECC. The Head of the Civil Service must hold the Permanent Secretaries and Heads of Departments accountable. The Head of the Civil Service and the Secretary to the Cabinet must also be held accountable by the PSC.

### *3.3 Checks and Balances in the System*

#### Observations

Government's structure includes a number of checks and balances, which appear to be fairly comprehensive and robust. This was confirmed by the National School of Government's reports on Bermuda's public sector.

The individuals and organisations in place to provide these controls include:

- o Audit Committee
- o Auditor General
- o Financial Secretary
- o Internal Audit
- o Management Consultancy Services
- o Ombudsman
- o Procurement Office
- o Public Accounts Committee of the House of Assembly
- o Public Service Commission

However, these individuals and organisations offer varying degrees of effectiveness. Some have proved to be effective watchdogs. Some are constrained by limited resources, and some lack adequate authority or 'teeth' to be effective.

Others find their authority is disregarded and dismissed by the leadership of the Civil and Public Service and by some Members of Parliament.

In the 2011 Annual Report of the Office of the Ombudsman, the Ombudsman described her experience during the investigation of Government's Special Development Order (SDO) process:

*"My jurisdiction to launch the investigation was and continues to be challenged despite an independent legal opinion from the UK supporting my jurisdiction. This was the first time that I had experienced such pressure. I prefer to conclude that there was neither malice nor a conscious attempt to undermine my constitutional role. Rather, this pressure appears due to a fundamental misunderstanding or ignorance of the stature of independent oversight in a democratic society. Fortunately, the Constitution protects my independence to fulfill my statutory duties".*

The Ombudsman drew a comparison with her office and the Office of the Auditor General by stating:

*"There is a lesson here: great care should be taken not to cross the line of interference with the direction to the independent oversight Officers of the Constitution – the Auditor General and the Ombudsman... The Constitution clearly states – with respect to both the Auditor General and the Ombudsman – that in the exercise of our functions, 'we shall not be subject to the direction or control of any person or authority'. There is a reason for this constitutional protection in the modern world of accountability. Oversight institutions must have absolute independence and capacity to shine a light where others may want to draw the blinds".*

We have seen evidence that the most effective watchdogs in Bermuda's public sector are individuals who are tenacious and unyielding. Civil servants described these individuals to the SAGE Commission as "bears" and "terriers".

We believe that relying on the personality of individuals to ensure proper management of Government Departments and public money is an unsustainable strategy.

The weakness of controls, checks and balances, and the blatant disregard for positions of authority and, ultimately, for protection of public funds have enabled infractions of the Financial Instructions and other rules to go unchecked and without consequences.

## Conclusions

In order for the current system of checks and balances to operate effectively, adequate resources are required.

The system also needs to be taken seriously by the leadership of the Civil and Public Service so that leaders cannot simply choose to ignore and dismiss these important controls.

Again, it must be acknowledged that the responsibility for this culture of a lack of adherence to stringent fiscal controls must be shared by both Government employees and Government Ministers. In the past, Ministers have exerted influence in encouraging – or at least not discouraging – an environment where it was deemed acceptable to ignore independent oversight functions.

Government watchdogs also need to be adequately resourced so that they can carry out their duties effectively.

## Recommendations

- The Secretary to the Cabinet, Head of the Civil Service and the Financial Secretary must set the tone and follow the rules, and ensure full and consistent enforcement, including the imposition of discipline and penalties.
- Legislative changes must be enacted as may be necessary to ensure that the Office of the Auditor General has the resources to operate independently and within its authority.
- Each watchdog or monitoring agency should assess its own weaknesses and propose solutions. For example, the Public Accounts Committee of the House of Assembly should investigate how to improve its effectiveness in scrutinising public spending rather than focus on political point scoring.

### 3.4 Performance Management System

#### Observations

On the rating scale of 1 (Best) to 5 (Poorest), 92 percent of Civil Servants attained an annual performance rating of 2 or 3 in the data provided to the SAGE Commission by the Department of Human Resources.

Only 5 percent of employees received a top rating of 1, and only 3 percent of employees received the lowest ratings of 4 or 5.

This is inconsistent with universal norms as well as anecdotal evidence of performance in Government, which suggests that there is a larger number of high performers and low performers across the employee spectrum.

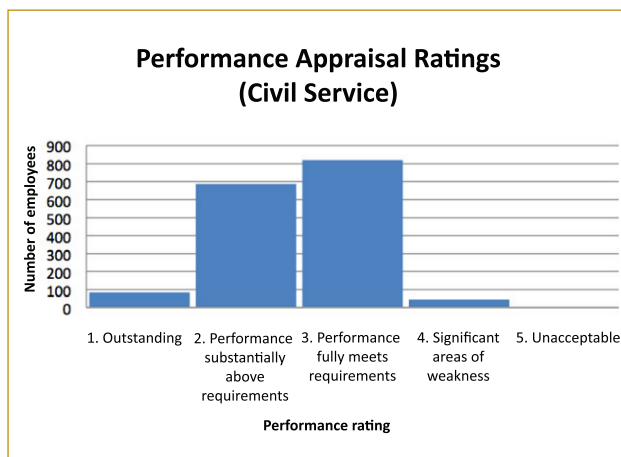
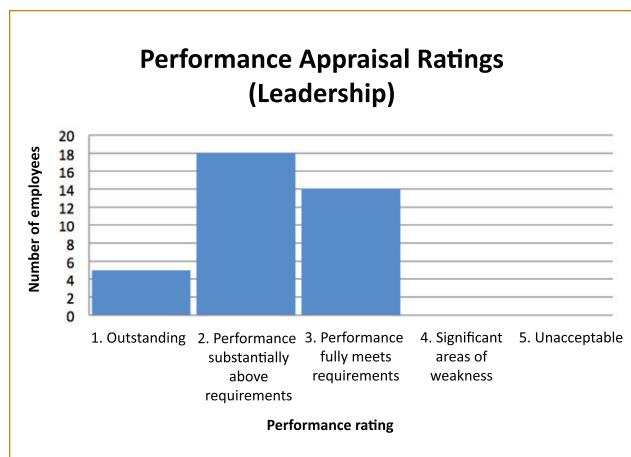
The skewed performance ratings suggest that Government's performance management process is ineffective. Interviews with Civil Servants indicate the process is simply a box which supervisors must tick, reinforcing a "don't rock the boat" culture.

Given these ratings, it is difficult to identify high performers to develop and reward.

It is also difficult to identify non-performers and manage, help, discipline or dismiss if those employees are consistently awarded "on target" ratings in their performance appraisals.

On the same scale, 100 percent of Civil and Public Service leaders attained a rating of 1, 2 or 3. This is not consistent with the performance of leaders on the measures we have used including financial reporting, adherence to budgets, improvements in performance, compliance with Financial Instructions and ability to implement the recommendations of various reports. Nor is it consistent with what leaders have told us anecdotally regarding the quality and performance of the Civil Service Executive as a whole.

The Performance Appraisal/Assessment Process further complicates the situation. The process is manual. Annual appraisals are completed on paper, and then inputted in a computer system by Human Resources. This is a slow process. Current information is not easily accessed by managers who want to use performance data to develop and manage their teams.



Source: Department of Human Resources

Represented in the above charts:

**Leaders:** Thirty-seven Heads of Department, Permanent Secretaries and Assistant Cabinet Secretaries. The posts of Finance Secretary and Secretary to the Cabinet are not subject to performance appraisals. Clearly, many of the other post holders at this level have not had their job performance appraised.

**Civil Service:** 1,640 employees represented by the Bermuda Public Services Union (BPSU).

Note that, as agreed in their Collective Bargaining Agreement, the approximately 1,200 employees represented by the Bermuda Industrial Union are not required to have performance appraisals.

## Recommendations

- The Human Resources Information System (HRIS) must be upgraded to allow for online entry of information. This would significantly improve the process for recording performance reviews and allow for easy retrieval of such information by authorised Department personnel.
- Aggregated statistics on performance appraisal ratings by Government Ministry, similar to the bar charts above, must be published publicly each year. This would ensure that leaders take the ratings they give to employees more seriously.
- Supervisors must be trained in effective performance management, which should be based upon objective, not subjective, criteria. As noted in the 2011 Civil Service Review, *"Elsewhere we refer to a culture in the Bermudian Public Service in which good behavior goes unrewarded and poor performance unremarked. Nowhere is this more manifest – and nowhere are the effects more corrosive – than in performance appraisal... Managing performance is the most important function of managers. All else – including organisational performance and the efficient and effective delivery of services – depends on it"*.
- A centralised Talent Management Database must be created. Any employee consistently rated a '1' (the highest rating) should be flagged for professional development that includes cross-Ministry training.

### ***3.5 Rewarding and developing strong performers***

#### **Observations**

While the current remuneration structure for the Civil and Public Service provides for specific compensation bands for specific positions, the structure is not geared towards rewarding effective managers and Heads of Departments who work at an exemplary level. The remuneration structure does not recognise an individual for extraordinary work or team achievements.

For example, a manager who puts in extra hours and extra effort may earn the same salary as a manager on the same level who puts in minimal effort to get the job done.

Likewise, innovation is not recognised or rewarded.

As a result, the Government loses talented employees to the private sector where a culture of reward and recognition is offered.

The CECC provides for the incentive of a bonus of up to \$1,000 to be awarded by Heads of Departments, with all officers below level PS40 eligible for consideration. The Head of the Civil Service (currently the Secretary to the Cabinet) may award such bonuses to officers above PS40.

#### **Conclusions**

Government is currently unable to offer sufficient incentives to effective managers and employees. Not consistently recognising hard work and good ideas fosters a culture of mediocrity.

#### **Recommendations**

- Establish a programme to incentivise managers and Department Heads using both short and long term meaningful incentives, as appropriate.

### ***3.6 Managing non-performers***

#### **Observations**

The process for management, documentation, discipline and termination of non performing employees is difficult to determine. It is outlined in multiple documents including the CECC, Public Service Commission Regulations, and Collective Bargaining Agreements, and is subject to the delegation of authority, the level of both the employee and disciplining manager, and the type of non-performance (misconduct or gross misconduct).

In some areas, the lack of corrective actions and performance incentives creates a culture of low performance.

During interviews conducted by the SAGE Commission, we were told that employees dismiss possible corrective action by saying “you can write me up”. We were also told of low performers being shuffled from one Department to another rather than receive corrective action.

## Conclusions

It is difficult for supervisors in the Bermuda Government to manage, discipline or terminate non-performing employees. As a result, non-performers remain on the Government payroll, becoming a burden to their co-workers and supervisors, impeding team performance and becoming an unnecessary cost to Government.

## Recommendations

- In order to make it easier for supervisors to follow the correct process, the CECC should set out, step by step, the process for management, documentation, discipline and termination, based on all possible variables. This should include documentation, timelines and other requirements including the disciplinary procedures laid down in the Public Service Commission Regulations.
- To ensure that the correct processes are followed in every situation, specially trained officers in the Department of Human Resources should be tasked with responsibility for the discipline and termination process in all Government Departments. A technical expert should guide supervisors and employees through the proper processes, thereby reducing the time allocated to addressing non-performance and allowing supervisors to focus on managing their units.
- Public Service Commission Regulations should be reviewed to ensure they are effective and follow best practices. Further, regulations that refer to discipline and penalties should be included in the CECC.

### *3.7 Conditions of Employment and Code of Conduct (CECC)*

#### Observations

The CECC is not applied to all Government employees. This document is not fully utilised for its intended purpose (to be user-friendly) and does not act as a practical guide to an employee's behaviour.

The updated version of the CECC, revised during the summer of 2012 by the National School of Government, focuses on the core values of the Civil and Public Service: Honesty, Integrity, Objectivity and Impartiality, including the proper handling of public monies. This document has not been rolled out to Government employees.

The SAGE Commission is aware of one case where an employee facing penalties based on the CECC successfully argued in court that he/she was hired under General Orders (the precursor to the CECC). This grey area should be addressed so that all public servants are employed under the same policy document.

## Conclusions

The CECC, including the 2012 revision, and the Ministerial Code of Conduct are important guides that support Civil Servants and leaders in conducting their duties. They should be utilised to the fullest extent.

## Recommendations

- The revised CECC and Ministerial Code of Conduct must be distributed to all Civil Servants and Ministers across Departments and at all levels. Civil Servants and Ministers need comprehensive training in how to use these documents to guide their behaviour and decision-making. The CECC must be applied uniformly.
- The Ministerial Code of Conduct must be made available to the public on Government's web site so that voters can hold their representatives accountable for compliance.
- Longer term, a Code of Conduct for the entire Civil and Public Service should be developed.

### 3.8 Strengthening the Department of Human Resources

#### Observations

The Department of Human Resources is still culturally perceived as Personnel Services (i.e. an administration function not expected to deliver leadership to the process).

Human Resources management, with a strategic focus on allocation of people resources and talent management, is not recognised as an integral part of Government's business planning and decision-making. More worrying, these views of this critical function are held by the senior management of the Human Resources Department.

The Commission conducted interviews with senior Civil Servants and Heads of Departments who reinforced the observations made by the National School of Government consultants.

The SAGE Commission agrees with the observations made in the 2011 Civil Service Review in which consultants from the National School of Government, who visited Bermuda in 1999 and again in 2011, stress the importance of making changes to Government's Human Resources function.

To quote this report on the Human Resources function:

*"There is evidence to suggest that many of the problems that we encountered in 1999 still persist. Timelines for the process of recruitment are still too lengthy – eight months from the identification of the need for a post (or a vacancy for a post) to filling the job was not untypical. HoDs (Heads of Departments) cited delay at all stages of the process leading to considerable frustration and on occasion the filling of the post by a consultant or temporary worker. (. . .) What is clear is that the reported delays have an adverse impact on the efficiency of the service that HoDs are required to deliver. And the knock-on effects – employment of consultants and temporary workers – are expensive. (. . .) The requirement to improve is palpable and given added impetus by the current fiscal position. The HR Department needs to lead the way in this improvement by adopting a more dynamic, challenging yet accelerated process beginning right at the start".*

The SAGE Commission also observed that there are separate Human Resources Departments across Government, Departments which provide similar functions but are not working in a coordinated effort.

## Conclusions

Government's Human Resources function is not performing at the level required to drive the cultural and organisational change needed in the Civil and Public Service.

Complacency, or simply not having the vision to be a central force for change, can no longer be considered acceptable.

### Recommendations

- Bring in outside support at the senior leadership level to turn the current situation around. The UK Government has offered its support in this regard.
- Create a 1-year, 3-year and 5-year strategic Human Resources Plan, tied to Ministry/ Department business plans.
- Upgrade the post of Human Resources Director to a management position equal to Permanent Secretaries. The post holder should sit on the Civil Service Executive.
- Align the various Human Resources functions across Government (Education, Police, etc.) to report to one Director of Human Resources and to work together in a coordinated fashion.
- Task the Head of the Civil Service with the responsibility of hiring the Human Resources Director (subject to PSC approval), assessing the skills, experience and qualifications needed to effect a performance management system and environment change for Government employees.
- The Human Resources Department should be split into two sections – one focused on strategy, policy, performance management, and talent development/succession planning, and the other on administrative services. The former should have responsibility for all such activities across Government and be recognised as a critical function of Government, directly represented at the Civil Service Executive.
- Human Resources managers should be placed in various departments as required and report in to the Human Resources Department.

## OTHER OBSERVATIONS AND RECOMMENDATIONS

### *Sick Leave*

#### Observations

In reviewing Government personnel costs, we have found patterns in sick day leave in Government that require urgent review.

The average sick leave amongst Government employees is 8 days. We could not get accurate benchmarks for the Bermuda workforce, however, we determined that sick leave figures for Bermuda are about 3 times the average sick days for Government workers in the Isle of Man and Gibraltar.

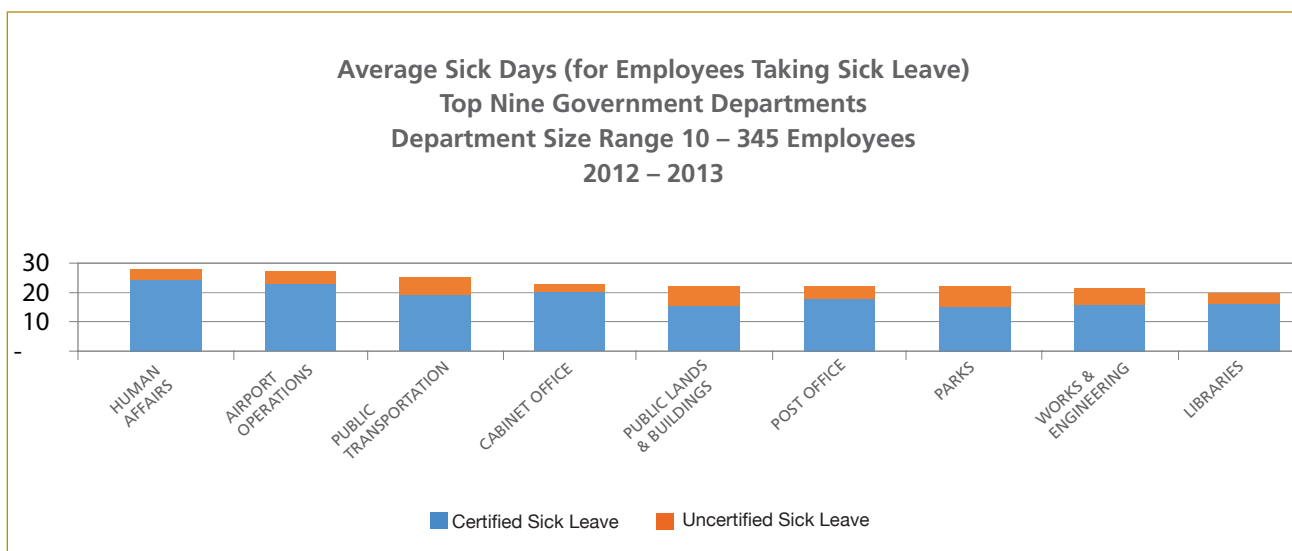
It is worth noting that during 2012/2013, one third of Government employees took no leave and one third of Government employees took one week or less of leave.

In other words, two thirds of Government employees appear to be taking a reasonable level of sick leave.

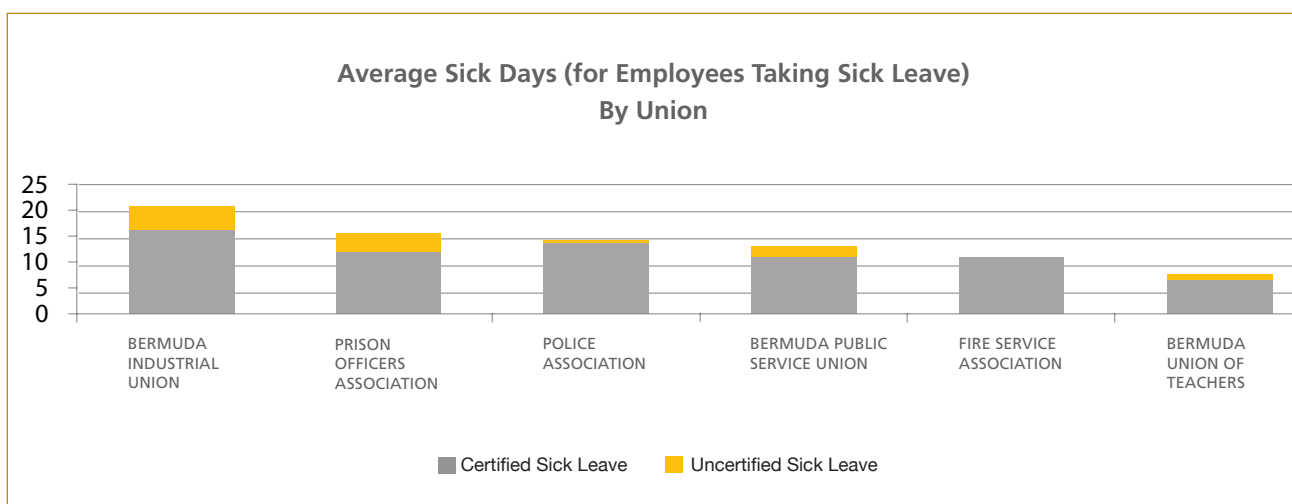
However, there is a high proportion of Government workers (33%) who take an unusually high level of sick leave. This group is responsible for the bulk of the almost 42,000 sick days taken in 2012/2013.

Sick days cost Government over \$10 million. This figure represents the annual output of about 110 workers.

The chart below indicates average sick leave days (for workers who take leave) by certain Government Departments. These nine Departments average at least 20 days' sick leave per year for the employees in those Departments who take sick leave.



The chart below breaks out sick day usage by Union members.



The data suggest a large abuse of sick leave, combined with a poor monitoring of sick leave by senior managers within Government.

The apparent abuse of sick leave is compounded by the scope and inconsistency of the sick leave entitlements provided in the various Collective Bargaining Agreements.

**Sick Leave Entitlement**

	<b>BPSU</b>	<b>Union Of Teachers</b>
Less than 2 Years	5 Weeks	5 Weeks
2-4 Years	6 Weeks	6 Weeks
Over 4 Years	14 Weeks	14 Weeks
Uncertified Sick Leave	8 Days	8 Days
	<b>BIU</b>	
3 Months to 4 years	5 Weeks	
4-8 Years	6 Weeks	
8-12 Years	8 Weeks	
12-16 Years	12 Weeks	
Over 16 Years	14 Weeks	
	<b>Prison Officers</b>	<b>Police Association</b>
All	63 Days	Unspecified
Uncertified Sick Leave	8 Days	8 Days
	<b>Fire Services</b>	
Less Than 2 Years	8 Weeks	
2-5 Years	15 Weeks	
Over 5 Years	24 Weeks	

**Recommendation**

There are clearly Departments with chronic sick leave problems. These need to be investigated thoroughly and those determined to be abusing sick leave must be managed appropriately.

***Bermuda Hospitals Board*****Observations**

The current facility at the Mid-Atlantic Wellness Institute (MAWI) requires a substantial upgrade, which is estimated to cost \$40 million.

Duplicated services are provided at the King Edward VII Memorial Hospital (KEMH) and at MAWI because the two facilities are operated on two separate sites.

Substantial savings would be generated from operating both facilities on one site.

**Recommendation**

Bermuda Hospitals Board should urgently conduct a review of the costs and savings to be gained from the erection of a new building on the KEMH site adjacent to the new Acute Care Wing that is currently being built.

Such a building could contain the patients cared for and services offered by MAWI as well as a Continuing Care Unit for the elderly.

Bermuda Hospitals Board should consider monetising the old MAWI site as part of the payment for the new building.

## ***Human Services***

One of Government's important functions is to protect and support those who are most vulnerable in our society.

At a macro level, this involves having a clear vision of Government's role in society as a whole. There is a wide range of models the world over for how countries have addressed this responsibility.

The SAGE Commission cannot settle the macro issue, as that is essentially a political discussion and outside our remit. However, during our review we found a number of issues that gave rise to the following observations:

- Government delivers Human Services through a number of mechanisms, many of which operate in separate Ministries or Departments. This creates a fragmented approach such that one family or individual can be seen by multiple caseworkers.
- In particular, the Departments of Financial Assistance, Family Services, Court Services, National Drug Control, the Bermuda Housing Corporation and Workforce Development may all be providing services to one family or person at any point in time. Each Department and organisation has caseworkers who provide these services.
- In addition, the Bermuda Land Development Company and the West End Development Company each have, within their property portfolios, housing that is, essentially, social housing.
- Government also supports, through grants, a number of charities that provide services in the areas of drug prevention and rehabilitation as well as support to families.
- With this multiplicity of services and service providers, there are both informal and formal mechanisms for coordinating services. However, the time spent in coordination inevitably takes time away from service delivery.
- There is also clear evidence from overseas that governments do not always provide social services in as cost effective a manner as does the charitable sector, however, the Bermuda Government provides a wide range of services itself.

While we believe that Government clearly has a role in setting policy and providing funding for those in need, we also believe that Government must address how these services should best be provided and funded in a way that serves the client. Service providers must be held accountable and the public must be provided with clear transparent evidence that their tax dollars are being well spent.

The question of the right role of Government with regard to Human Services is a critical one.

However, it is clear that Government must assess whether an individual needs help and if help is needed then see that this help is provided.

Governments in the US and other countries have done a cost analysis of service provision, and have found that it is less costly to purchase services for individuals, as needed, from the charitable sector because overhead is significantly lower.

For the last decade, the US Government has been setting standards for Human Services delivery (often requiring providers to be accredited). Service providers are then monitored to ensure that services are delivered at specified standards.

For example, if a child needs case management and therapy, a non profit organisation can provide a month of service to that child and his/her family at a cost that is typically three times less than the cost of the direct service by Government.

## **Recommendation**

There needs to be an urgent, formal, strategic review of the delivery of Human Services in Bermuda to ensure that those requiring support receive specific, targeted assistance, while keeping the cost of service delivery to a minimum.

## ***Uniformed Services***

### **Observations**

There are widely disparate conditions of service, particularly with regard to benefits between the uniformed services.

For example, Police Officers do not pay premiums for Major Medical Insurance. This benefit is paid entirely by the Bermuda Government. Yet the other services' members pay for one half of the cost of their Major Medical Insurance.

Police Officers of a certain rank may retire after 25 years service, and Prison Officers of a certain rank may retire after 21 years service. For other services, the retirement age is 60.

Police Officers' allowances are now part of the Pension Amount but this is not the case for the other services.

## **Recommendation**

Conditions of Service for the uniformed services (Police, Prisons, Fire and the Bermuda Regiment) should be reviewed on an urgent basis in order to harmonise benefits.

## ***Government Cars***

### **Observations**

While many Government cars are driven from a government office to the user's home and back again, GP-plated vehicles have often been observed in the parking lots of supermarkets, health clubs and golf courses. This suggests that Government cars are not used strictly for Government business.

## **Recommendation**

The Head of the Civil Service should review the use of Government cars and to whom such vehicles are assigned with a view to reducing the number of Government cars.

This review should include the use of Government cars by senior officers in the Police, Prisons, Fire, Regiment and Customs Services.

## ***Quangos (Quasi Non-Governmental Organisations)***

### **Observations**

Ministers can issue general policy directives to quangos for which they are responsible.

### **Recommendation**

- Ministerial Directions relating to quangos must be published when issued, as well as included in the quango's annual report to Parliament, and
- Board members of quangos must receive regular training on Board Governance.

## ***Financial Management and Control: Financial Controllers***

### **Observations**

The Financial Controller position was created some time ago to enhance the financial control, management accounting and general financial analytical capability within some Ministries by providing the Permanent Secretaries with a resource person knowledgeable in financial and management accounting.

In certain Ministries, this position has been extended down to the Department level so that there are financial controllers in individual Departments rather than just at the Ministry level.

Job descriptions suggest that the Financial Controllers have responsibility for ensuring that financial instructions are followed, and have responsibility for ensuring that the staff engaged in tasks that impact the financial accounting system are properly trained and supervised. The Financial Controllers often do not have any direct reports, and thus only have dotted line authority over these staff.

The control over the budgets within a Ministry belongs solely to the Accounting Officer (Permanent Secretaries in the case of Ministry Headquarters and Department Heads or, in certain large Departments, Section Heads).

The Financial Controllers report to their Permanent Secretaries (or Department Heads where they operate at the Department level). There is no formal reporting responsibility to the Accountant General, although many of the accounting entries that affect the Government Accounts for which the Accountant General is ultimately responsible, are initiated at the Ministry/Department level.

Further, the staff reporting (dotted line or direct) to the Financial Controllers are generally administrative staff, with few accounting skills, requiring substantial amounts of their time to be spent dealing with routine, data entry issues.

As such, with some specific exceptions noted below, the Financial Controllers have responsibility without authority or appropriate resource. Their authority arises only insofar as the person to whom they report decides to support them and the decisions that they would like to have implemented.

The one exception is those Ministries where Accounts departments have been created so that the accounting entries being generated within a Ministry are generated by dedicated staff reporting to the Financial Controller and then only in respect of the accuracy of those accounting entries. This exception has been created in a number of Ministries based upon an initiative put in place by Management Consultancy Services.

Changes are needed to allow Financial Controllers to more effectively carry out the following functions:

1. Ensure that Financial Instructions are followed within the Ministries and Departments for which they have responsibility;
2. Ensure that funds are expended for the purpose for which they were budgeted.
3. Ensure purchases are made only where required for the efficient and effective achievement of the outcomes articulated in the Ministry and Department Strategic and Business plans after due consideration of cost effective alternatives and implementation of cost mitigation strategies;
4. Ensure that the financial accounting entries being initiated within their Ministries/ Departments are accurate and complete and efficiently processed.

## Recommendation

The authority of the Financial Controller position should be strengthened by:

1. Changing the formal reporting relationship so that the Financial Controllers report to the Accountant General, with a “dotted line” to the Permanent Secretary, Department Head or Section Head as the case may be. The Accountant General would have the responsibility for review and sign off of the Financial Controllers’ forward job plans and annual evaluations, but the person holding the “dotted line” responsibility would also have a responsibility for formally reviewing and signing off these documents. This should be formalised in Financial Instructions or the Code of Conduct.
2. Providing for formal approval of all Ministry (and its constituent Departments) purchases and contracts by the Financial Controller for the Ministry. This approval requirement should be included in Financial Instructions or the Code of Conduct.
3. Consolidating the accounting functions carried out by Ministry and Departmental staff into an accounting section for a given Ministry reporting to the Financial Controller.
4. Evaluating whether additional mid-level accounting resources should be provided to the Financial Controllers so that they are not directly supervising administrative staff with few accounting skills.

## *Paying staff for “Acting Up”*

### Observations

“Acting Up” refers to the practice in the Civil Service of granting the title of “Acting” for any role that is rated at a higher PS level than an employee’s current role.

Currently, when an employee is granted the title of Acting, a pay adjustment is generally processed to give them the higher salary for the period they are Acting. This practice is not universal and, for those reporting to a Permanent Secretary, is at the discretion of the relevant Permanent Secretary.

In our interviews with the Permanent Secretaries, it was clear that there is not universal support for the practice. Some will not authorise the additional pay for short periods of time and prefer to view the opportunity to “Act Up” as a development opportunity.

Some will authorise the additional compensation. Again, depending on the person authorising the

increase, these increases can be in effect when covering vacation periods and have a knock-on effect throughout the Department as everyone moves up a rank to cover the various vacations.

This practice of paying for “Acting Up” is, in our experience, unknown in the private sector. If someone is off the Island or on vacation for a period, then the work that must be done is distributed among the remaining staff in consultation with the person’s direct report.

Given the ease of communication today, including widespread use of smart phones (including within the Civil Service), it is rare that a person filling in on a temporary basis is out of contact, in respect of significant decisions, with either the absent person himself or that person’s direct report.

## **Recommendation**

The general practice of paying staff for “Acting Up” should be revised and:

- o No acting pay should be given for covering a senior position unless the person doing so has been doing so more than 30 days;
- o These payments should require the authorisation of the Head of the Civil Service;
- o The payments should not be retroactive for the 30 days in question. They should only be prospective; and
- o All acting payments should be tracked in a separate category to allow effective analysis and control of the cost.

## ***Information Systems***

### **Observations**

During the investigation phase of our work, the Cabinet Office was in the process of considering an IS/IT governance framework for the Government of Bermuda.

We applaud this initiative, as it is clear to us based on our numerous interviews that the Information Technology Office is currently just that: an information technology group that ensures that the “boxes and pipes” work properly. They have no responsibility for information systems.

The governance initiative is, however, only the first step. As noted in the next section, Government has not fully implemented the JD Edwards Enterprise Resource Management System (E1) and the issues and problems arising from this implementation are noted below.

We also found other instances where systems implementations were problematic. In particular, Magistrates Court implemented a new computer system, which the Department of Court Services, who manage the probation orders handed down by the Court, could not, at the time of our review, access.

As a consequence, instead of the Court Services information and record keeping being fully integrated with that of the Magistrates Court, they have had to develop an ad hoc solution to their information systems needs which is fragmented and unsatisfactory.

In addition, there are different Departments exercising similar licensing functions and receiving payments where each has developed a separate and distinct information system and process when one, centralised process accessible to the public (including both the information technology

component and supporting people and processes), would do. Examples include TCD (vehicle licensing), Marine and Ports (boat and mooring licensing), and Post Office (dog licenses).

E-Government has not been fully realised and the Department of e-Government, while providing valuable, although limited, support to certain initiatives of other Departments, is not in a position to realise that vision. A strategic review should be conducted to determine the direction e-Government should now follow.

## Recommendation

The CPU needs to articulate and implement an information systems strategy. This strategy needs to fully address the difference between information systems (the business processes, computer application systems and data that directly support the objectives and strategies of the business) and information technology (the technical infrastructure and services that support the information systems).

This strategy should be developed as part of (and be an integral support to) the overall Strategic Plan for both Government, as a whole, and for individual Ministries as laid out in the Measurement & Metrics section of this report.

In particular, it must address:

- the proliferation of individual information systems which should, but do not, fully interact with each other;
- the lack of full consideration of the impact of a systems implementation in one arm of Government on the operations of another;
- the duplication of systems and processes in different Ministries and Departments to perform similar functions; and
- the importance of having a fully comprehensive implementation plan for any new system, particularly those impacting multiple Ministries and Departments, which addresses business process redesign, training and ongoing support at the individual user level.

Information Systems can be a key business enabler, helping to make Government more effective and efficient. Without a strategic plan, there is little chance of realising the full potential of this important resource.

### ***JD Edwards Enterprise Resource Management System (E1)***

The JD Edwards Enterprise One (E1) system is a class of computer application system referred to as Enterprise Resource Planning (ERP).

An ERP, and the E1 system in particular, consists of an integrated suite of modules that are capable of supporting the core back office business functions of Government such as Financial Management, Asset and Equipment Management and Project Management.

## Observations

In our interviews with Department Heads, substantial dissatisfaction was expressed over the efficiency and effectiveness of E1.

Issues relate to poor planning, poor execution of the implementation and systems that do not meet their needs or systems that require overly complex processes which lead to a significant demand on their resources and inaccurate or untimely information.

Further, there was widespread criticism of the level of customer service provided by the IT Unit responsible for E1. This Unit, which is in a state of flux with no fulltime employees, has struggled to provide the support needed to make effective use of the system.

We understand that work is being done on an urgent basis to establish this Unit on a more permanent basis.

In our interviews with the Accountant General's Department, substantial dissatisfaction was also expressed with the state of the system, albeit from a slightly different perspective.

Specifically, the Government has acquired many modules which have not yet been implemented, but which have the potential to solve at least some of the issues above. However, the implementation team has been starved of resources and is too busy solving day-to-day problems to move the implementation forward.

These observations were supported by the Financial Controllers Group.

At this point, there is a range of options open to Government – from abandonment of the E1 system in favour of a smaller, simpler system; to simply “making do” with the current state (and tidying up some of the problems creating the most significant issues); to fully completing the implementation of the original vision for E1.

## **Recommendation**

A detailed, independent analysis of the current state of implementation should be performed. This analysis must include an assessment of the resources required and benefits to be achieved under the scenarios noted above.

Once a decision has been made on how to proceed, Government must commit the resources required to implement the chosen path.

## STREAMLINE: Creating a Nimble Government

With 36 Members of the House of Assembly, 11 Senators, 12 Ministries, 72 Departments, 13 quangos, 16 related entities and approximately 5,300 employees, the SAGE Commission believes the Government of Bermuda has become bloated, jeopardising the Island's ability to compete on the global stage.

In order to emerge from a crippling burden of debt, the country needs a government that enables a nimble response to emerging opportunities.

This section outlines the SAGE Commission's recommendations for redesigning a Bermuda Government for the 21st century, one that the Island needs and can afford.

The recommendations are also designed to refocus and realign Ministries to achieve value for money, improve the quality of service, increase the speed of delivery, heighten the level of accountability and achieve Government's objective of increasing transparency.

In addition, the reduction of duplication of effort and resultant efficiencies will see staffing levels reduced over time.

This section does not review or comment on:

- Specific staffing levels within Departments,
- Programmes managed and staffed within specific Departments, or
- Government Boards.

While all of these areas warrant review for further efficiencies and cost savings, there is ample room for efficiencies and expense reduction within the Ministries and Departments reviewed by the SAGE Commission. However, even before the organisational structure of the Bermuda Government is considered, we believe our elected and appointed representatives should show Bermudians they are serious about tackling the country's debt by reducing the cost of governing the country.

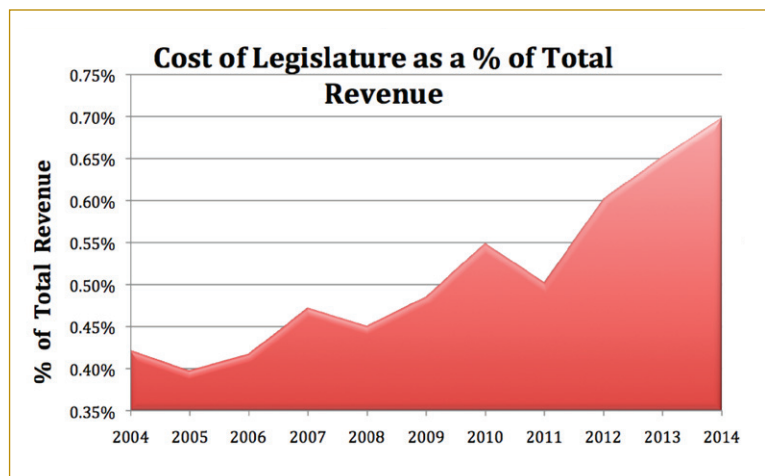
### *House of Assembly*

In 2005, when there were 40 Members of the House of Assembly, the Legislature consumed .45% of Government revenue.

In 2014, with 36 Members of the House of Assembly, it is projected that the Legislature will consume .70% of Government's revenue.

These numbers do not include accrued liabilities for Members for GEHI and their pensions.

The budgeted amount for the Legislature is \$6,079,000, of which \$4,604,000 is spent on Ministers and Members.



## Recommendations:

The Commission recommends that the cost of running the Bermuda Parliament be reduced by 15% as follows:

1. In the first instance, we are recommending that the number of Members of the House of Assembly be changed, and the necessary Constitutional changes effected, to reduce the size (and the cost) of running the Bermuda Parliament by reducing the House of Assembly from 36 to 30 seats.

The reduction in the size of the House requires a Constitutional change which may be made now but which will not take effect until the next General Election.

Further, we recommend that the size of the Cabinet be reduced to a maximum of 8 Ministers including the Premier. The Premier can make changes now to the size of the Cabinet without changes to the Bermuda Constitution.

It is anticipated that these reductions represent savings of \$730,000 in salaries and benefits.

Until both these recommendations are implemented, we recommend that the Ministers and Members of the Legislature take an immediate reduction in salary equal to the reduction in salary and wages of the Civil and Public Service.

We also recommend that Ministers and Members of the Legislature reduce their salary in the future in line with any reductions in the salary and wages of the Civil and Public Service.

However, these cost savings do not equal the targeted 15%. We therefore recommend that the remaining areas of the Legislature's budget be reduced to make up the difference and/or further reductions in the salary of the Ministers and Members of the Legislature.

2. Form 3 Joint Select Committees of the Houses of the Legislature, giving each Joint Select Committee responsibility for 2 or 3 Ministries. Each Joint Select Committee would monitor the Ministries' activities on an ongoing basis, calling Ministers and Civil Servants before them to answer for the activities of the Ministries and Departments in the same way as is found in other Commonwealth Parliamentary systems.

This structure would enhance transparency of ongoing Government activity far better than a once-yearly budget debate filled with sound bites and the occasional parliamentary question with its nuanced answers.

## ***Bermuda Government***

The Government Organisational Chart as of July 2013 shows:

- 12 Ministries and 13 Ministers (one being without portfolio)
- 72 Departments
- 13 quangos
- 9 organisations where Government has administrative responsibility

GOVERNMENT OF BERMUDA  
Current Organisational Chart

LEGEND

Government Departments

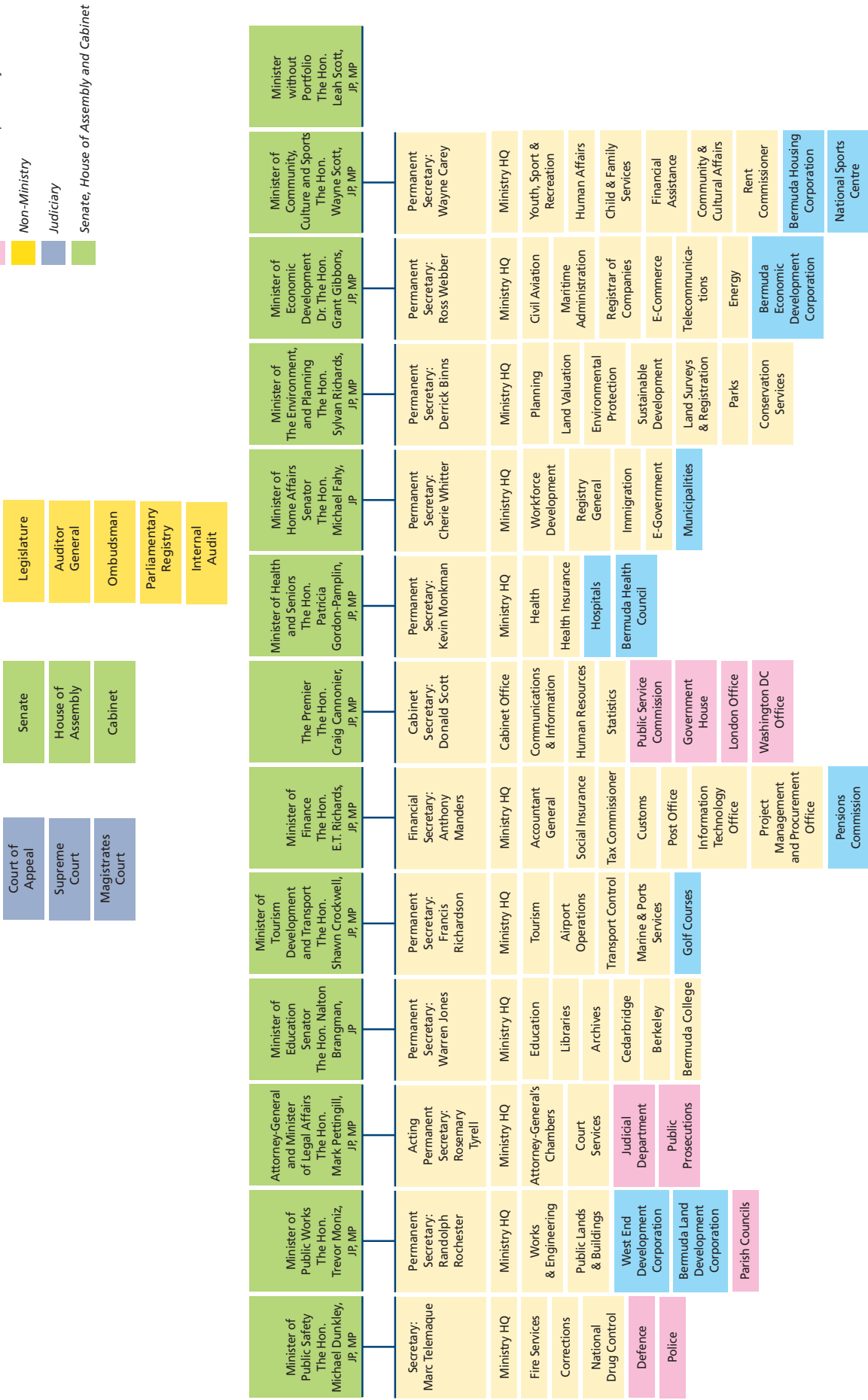
Quango or other Government body

Administrative responsibility

Non-Ministry

Judiciary

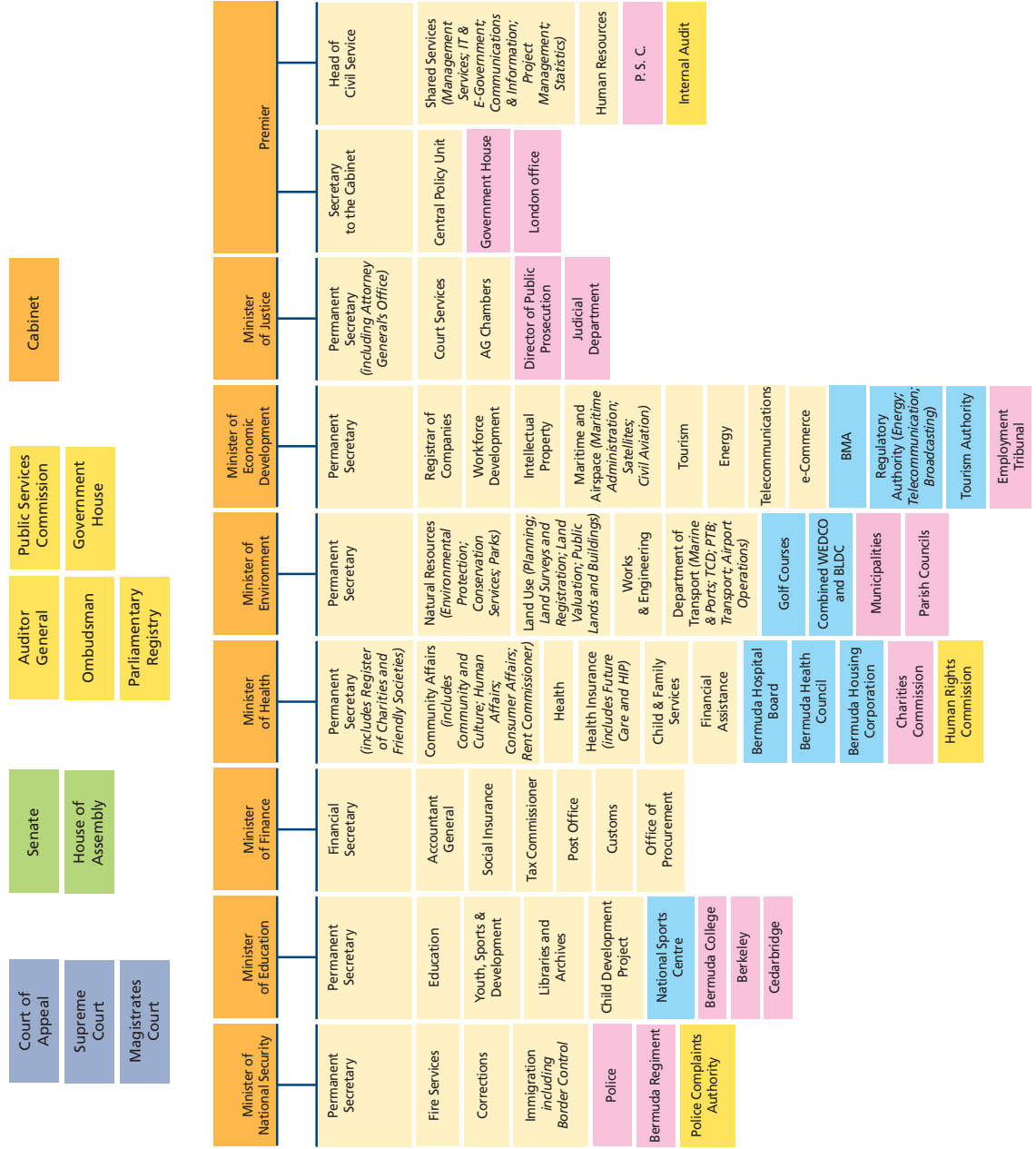
Senate, House of Assembly and Cabinet



## Proposed Organisational Chart

## LEGEND

	Government Departments
	Quango
	Administrative responsibility
	Non-Ministry
	Judicial Arm of Government
	Executive Arm of Government
	Legislative Arm of Government



## Recommendations:

The SAGE Commission recommends the following changes to the areas and functions listed on Page 61:

- A maximum of 8 Ministries (a reduction of 4) and 8 Ministers (a reduction of 5)
- 52 Departments (a reduction of 20)
- 12 quangos (a reduction of 1)
- 8 organisations where Government has administrative responsibility (a reduction of 1)

The Commission also recommends that Government adopt a streamlined naming protocol for Ministries and Departments to reflect a commitment to a leaner organisational structure.

Once final decisions have been made regarding the names of Ministries, the Commission recommends that these names do not change with a change of government. This will eliminate the unnecessary expense generated when signs, banners, letterhead, envelopes and other items are reprinted each time a Ministry name is changed.

Retaining the same names for Ministries will also reduce public confusion during periods immediately after a change in government.

When considering names for Ministries and Departments, we have chosen, where possible, to use single words and resisted the temptation to include “and” as well as lengthy descriptors.

	MINISTRY NAME TODAY	BECOMES
1	Premier/Cabinet Office	Premier/Cabinet Office
2	Public Safety	National Security
3	Attorney-General and Legal Affairs	Justice*
4	Education	Education
5	Finance	Finance
6	Health & Seniors	Health
7	Environment & Planning	Environment
8	Economic Development	Economic Development
9	Public Works	Abolished and Departments moved to Environment
10	Tourism Development & Transport	Abolished and Departments moved to various Ministries and to the Tourism Authority
11	Home Affairs	Abolished and Departments moved to various Ministries
12	Community & Cultural Development	Abolished and Departments moved to various Ministries

*\*The Premier determines whether the Attorney General is a Minister or a public servant. The functions of a Minister of Justice are additional to the duties carried out by an Attorney General.*

These recommendations cannot, by virtue of their nature, offer immediate financial savings.

Streamlining offers long-term solutions to duplication, impractical and/or unnecessary programmes.

## Recommendations: Ministries and Departments

### 1. Premier/Cabinet Office

The Cabinet Office is the “heart of government” providing services to the Cabinet, the Premier and the various Ministries.

The Cabinet Office’s mission statement states that it “acts as the corporate headquarters for the Civil Service, providing services, advice and guidance for other government departments and the wider public sector.” It also coordinates on cross-Ministerial issues.

Currently, the Cabinet Office is made up of three departments. It also has administrative responsibility for four entities.

- Communications & Information
- Human Resources
- Statistics
- Public Services Commission\*
- Government House\*
- London Office\*
- Washington DC Office\*

*\*administrative responsibility*

## Recommendations

1. As noted in the Performance section of this report:

- Give the responsibility for managing the operations of the Civil and Public Service to the Head of the Civil Service, including the completion of performance appraisals of the Financial Secretary and Permanent Secretaries.
- Abolish the position of Assistant Cabinet Secretary.
- Define the role of the Secretary to the Cabinet in accordance with the provisions of Section 69 of the Constitution, but expand it to include other areas such as co-Chair of the Civil Service Executive and responsibility for the Central Policy Unit.
- Assign responsibility for the job descriptions for the posts of Secretary to the Cabinet and Head of the Civil Service to the Secretary to the Cabinet to reflect the recommendations of the SAGE Commission, those job descriptions to be approved by the PSC.
- Give equal seniority to the positions of Secretary to the Cabinet and Head of the Civil Service.

2. Resurrect a fully staffed and functioning Central Policy Unit managed by a Director who reports to the Secretary to the Cabinet. The Unit will once again include the responsibility for the Sustainable Development activity within Government, connecting these initiatives within Ministries and with the community.

3. Create a Department of Shared Services managed by a Director who reports to the Head of the Civil Service, to include:

- a. Management Consultancy Services
  - b. IT (moved from Finance)
  - c. e-Government (moved from Home Affairs)
  - d. Communications & Information
  - e. Project Management
  - f. Statistics
4. Create a new Department of Human Resources to be managed by a Director who reports to the Head of the Civil Service.
  5. Transfer elements of the current Registrar General's Department – including Registry of Birth, Deaths, Marriages, and Divorces – to Statistics.
  6. Retain administrative responsibility for Government House and the London representative office in the Secretary to the Cabinet post.

These recommendations represent a more coordinated approach to the governance of Bermuda's affairs and a more coordinated, efficient and effective infrastructure for Government.

Organisational and operational changes resulting from these recommendations are:

- The reinstatement of a fully functioning Central Policy Unit, as recommended in the 1999 Civil Service Review report, to manage issues and programmes that must be coordinated across Government, ensuring that the entire organisation is working to one overall strategic plan that is of benefit to the whole community.
- The closure of the Washington DC representative office (this does not apply to Bermuda's lobbying representation in Washington).
- The elimination of all Assistant Cabinet Secretary positions.
- The abolition of the Registrar General's Department, with elements of services currently provided moving to the Department of Statistics and the registration of charities and others moving to the Ministry of Health, Trademarks moving to the Ministry of Economic Development.
- The abolition of the Sustainable Development Unit.
- The transferral of responsibility for the Public Access to Information (PATI) legislation to the Ministry of Justice.

## 2. Ministry of National Security

(currently the Ministry of Public Safety)

This Ministry's mission is *"to protect and enhance the welfare of our community effectively, efficiently and equitably"*.

The Ministry's objectives (as stated in the Estimates of Expenditure & Revenue 2013/14) are *"to protect the borders through interdiction and sensitive fair application of Bermuda's immigration laws"*.

### Recommendations:

- Change the Ministry's name to better represent its primary responsibility carried out through the auspices of the Bermuda Police Service, the Bermuda Regiment, the Bermuda Fire Service, Immigration and Border Control (i.e. to provide for Bermuda's security in its totality).

- Move the Department of Immigration (including Border Control) to this Ministry.
- Transfer Parole Services from the Ministry of Justice (currently called the Ministry of the Attorney General and Legal Affairs) to this Ministry.

### 3. Ministry of Education

#### Recommendations:

- Move the Department of Youth Development and Sports to this Ministry.
- Merge the Departments of Libraries and Archives into one Department, eliminating one Director's salary.
- Expand digital record keeping to Archives in order to save on rental storage space. Fees could be charged to those that wish to see the documents, covering the cost of digitization.
- Complete within 12 months the move of Preschools to Primary School premises.
- Conduct an urgent review of the physical needs of the Department of Education with a view to identifying redundant facilities and the consolidation of schools where possible. Consider repurposing redundant facilities, if suitable, as nursing homes for the aged or selling them.

### 4. Ministry of Finance

#### Recommendations:

- Transfer the responsibility for Information Technology to the Cabinet Office and merge with Shared Services.
- Transfer the positions of Project Manager from the Procurement office to the new Department of Shared Services.

***Bermuda Post Office: a costly example of the consequences of not implementing change***

#### Observations

The Bermuda Post Office, similar to its counterparts in the United States, Canada and the United Kingdom, is suffering from a decline in the volume of mail it handles. In the 2011 Report by Government's Management Consultancy Services, it was noted that mail volumes in Bermuda were declining by 1 million pieces (7%) per year. In addition:

- The Post Office is at least 80% overstaffed (over 100 too many staff), with 90% of operating costs in salaries.
- Mail volumes at loss-making sub post offices are projected to be insignificant by 2015.
- Direct/junk mail, the Post Office's sales growth line, is not part of the Universal Service Obligation under which the Post Office operates.
- The last decade saw cumulative losses of \$56 million (compared to \$7 million loss and \$1 million profit in prior decades).
- It is clear that the Post Office's current business model is no longer sustainable. If no action is taken, losses of approximately \$134 million are projected over the next decade.

- These observations were gathered from a number of reports in the possession of the Government going back many years which recognised that the Post Office was no longer sustainable and very overstaffed yet nothing was done.

## Conclusion:

Given global trends to digital communication, the current business model for the Bermuda Post Office is not sustainable.

## Recommendations:

- Close all post offices, but leaving 3 post offices to be located as follows: one in Hamilton serving the central parishes, one in the East and one in the West serving parishes in their area. The Eastern and Western Post Offices should be located on bus routes for ease of access for those who do not drive cars or bikes.
- Once redundant sub post offices have been closed, the buildings in which they are located should be sold, rented or repurposed. The preferred option would be to sell the buildings and use funds raised to pay down the national debt.
- Cease mail delivery to houses and businesses; construct cluster boxes as in the Bahamas and the Cayman Islands. Cluster boxes should be located in each parish.
- Reduce staff to the level needed to service 3 post offices and deliver mail to the cluster boxes.

## 5. Ministry of Health

The Ministry's mission statement (through the Department of Health, Estimates of Expenditure & Revenue 2013/14) is *"to promote and protect the physical, psychological and social well being of the community, to enable the island's residents to realise their optimum quality of life"*.

The SAGE Commission recommends the following:

- Transfer responsibility for the registration of charities, friendly societies and unions to this Ministry.
- Transfer the administrative responsibility for the Charities Commission and the Human Rights Commission to this Ministry.
- Retain the responsibility for the Orange Valley facility and the Opportunity Workshop in this Ministry.
- Investigate the feasibility of outsourcing HIP, Future Care and GEHI while maintaining supervisory oversight through the administrative services of a reorganised Health Insurance Department.
- Create a new Department of Community Affairs composed of the formerly separate Departments of Community & Culture, Human Affairs, Consumer Affairs and the Rent Commissioner.
- Merge the Department of Financial Assistance with the Department of Child and Family Services.
- It would seem reasonable and logical to transfer the Happy Valley Child Care Centre from the Department of Child and Family Services to Education, which already has responsibility

for the Child Development Programme. However, there was not enough time to examine the entirety of this Department's programmes and make a full recommendation. It would be beneficial to examine all of this Department's programmes for synergies.

- Abolish the Department of National Drug Control (NDC). Previously a quango, this Department was the conduit through which grants were given to rehabilitation service providers. Those Grants can be given directly from the Ministry. Retain, as a section within the Ministry, the research/educational element as well as the accreditation responsibility of the old NDC. Outsource all treatment to rehabilitation service providers as well as the running of the new treatment facility in Dockyard.

## 6. Ministry of Environment

The Ministry's mission statement is *"to lead Bermuda toward sustainability by protecting and enhancing our natural and built environment"*.

### Recommendations:

- Create a new Department of Natural Resources to include Environmental Protection, Conservation Services and Parks.
- Create a Department of Transport that includes the former separate Departments of Marine & Ports Services, the Transport Control Department, the Public Transportation Department and Airport Operations.
- Create a Department of Land Use comprised of the Department of Planning, the Department of Land Surveys and Registration, the Department of Land Valuation, and Public Lands & Buildings.
- Combine the West End Development Corporation and the Bermuda Land Development Corporation into one quango.
- Align the newly merged quango noted above and Government-run golf courses with this Ministry.
- Place the administrative oversight of the Municipalities of Hamilton and St. George's under this Ministry.
- Transfer the responsibility for the Department of Works & Engineering to this Ministry.

## 7. Ministry of Economic Development

This Ministry's mission statement is *"to direct and coordinate the activities of the departments responsible for fostering Economic Development in order to promote and strengthen the economy, create jobs and enhance the domestic and international business sectors"*.

### Recommendations:

- Combine Departments of Maritime Administration, Satellites and Civil Aviation into the newly named Department of Maritime and Airspace.
- Transfer the Department of Workforce Development to this Ministry.
- Create a Department of Intellectual Property. The responsibility for this Department is moved from the Registrar General, a Department slated for elimination.

- Expand the role of the Regulatory Authority to include responsibility for Energy and Broadcasting.
- Align the quangos of the Regulatory Authority, the Tourism Authority and the Bermuda Business Development Agency with this Ministry.

## 8. Ministry of Justice

(currently the Ministry of Attorney General and Legal Affairs)

This Ministry's mandate is *"to manage the Government's Legislative Programme"*.

### Recommendations:

- The Department of Court Services – minus its responsibility for Parole (which belongs with Corrections under the Ministry of National Security) – remains under this Ministry.
- Although the Judiciary is established by the Constitution as a separate and independent branch of Government, this Ministry is in charge of providing necessary services and support. This is a situation that could result in the judiciary being underserved or inadequately served. This is an area that needs further study to determine the best way forward.
- Transfer the responsibility for Parole Services to the Ministry of National Security so that it and the Department of Corrections, which it serves, are under the same banner. This would avoid the current confusion in the minds of both the receivers and the givers of the services that Probation and Parole are the same. They are not.
- Move PATI to this Ministry, as a separate section of the Ministry.

## MEASUREMENT & METRICS: The Era of Accountability

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Reporting to the public on a regular and transparent basis is central to the concept of Government accountability.

The SAGE Commission believes that it is critical that the people of Bermuda – the taxpayers – receive regular reporting on what the Government (and its Ministries and Departments) are trying to achieve and whether they are doing so.

The Commission also believes that having robust metrics and measures in place across Government is a prerequisite to achieving the organisational goals and objectives that will effect necessary change in Government.

However, measuring efficiencies alone will never achieve accountability; efficiency only matters if it is achieving something that contributes significantly to the wellbeing of the people of Bermuda.

Doing the wrong thing efficiently is not much help to anyone.

While the SAGE Commission considered measures of efficiency in our analysis, we were more focused on having the right structures in place to ensure that Government identifies and directs its efforts to achieving the best outcomes, and then performing the activities required to achieve the outcomes efficiently.

In considering the Bermuda Government's measurements and metrics, the SAGE Commission examined the following Ministries and their related Departments in detail:

- Ministry of Education
- Ministry of Tourism, Development & Transport
- Ministry of Works & Engineering
- Ministry of Community and Cultural Development
- Ministry of Public Safety
- Ministry of Environment and Planning

The remaining Ministries and Departments were examined, but in less detail.

Nevertheless, this less detailed examination supported the common themes, findings and conclusions developed in relation to those Ministries that were examined in detail.

For each Ministry (and related Department) examined in detail, an analysis was prepared which examined the linkage between strategic plans, business plans, and objectives and measures published in the Annual Approved Estimates of Revenues and Expenditure for the Year 2013/14 (the Budget Book).

The Commission undertook a detailed review of the Strategic and Business Plans in the various Ministries and Departments that included interviews with various Heads of Departments and Permanent Secretaries.

The Commission has documented the results of this work in the Measurement & Metrics section of the Appendix, which can be found on the flash drive that accompanies this report.

In order to consider and document a possible Performance Measurement Report, additional analysis was conducted for selected Departments within the relevant Ministries.

We say “possible”, because given the limited time available, the Commission was not in a position to develop the type of detailed measures that Departmental technical officers should be able to develop. The results of this additional analysis can be found in the Measurement & Metrics section of the Appendix which is available to view on the flash drive included with this report.

Additional comments and suggestions relating to specific Ministries and Departments have been documented in this report’s Appendix.

Together, these analyses highlight key findings. They include additional measures or metrics that the Commission believes would enhance the efficiency, effectiveness and accountability of Departments and Ministries and outline possible additional measures or metrics for evaluation of their ongoing performance.

For those Ministries not examined in detail, we prepared an analysis that examined the linkage between strategic plans, business plans, and objectives and measures published in the Budget Book.

The results of this more limited work are also documented in this report’s Appendix. This review supported the Commission’s general findings.

## ***Key Findings Across Ministries and Departments***

1. The links between the political agenda – as expressed in the governing party’s election platform, the Throne Speech and the Budget Statement – and a Ministry’s or Department’s strategic plan, business plan, and annual objectives and measurements, as set out in the Budget Book, are not clearly articulated in written documents:
  - There is no overall strategic plan for Government.
  - The Civil Service Executive (CSE) do not set priorities or facilitate inter-Ministry coordination.
  - Ministries and Departments are not required to prepare a strategic plan that provides a clear and documented link between Government’s agenda and the business plans and budgets of the relevant Ministry or Department, although some do.
  - Where strategic plans are prepared, they are not prepared in a common format. Some Ministries or Departments engage external consultants to assist in this work.
  - All Ministries and Departments should have business plans, but not all Ministries and Departments prepare them or keep them up-to-date.
  - While in most cases business plans are used as a planning tool to assist in the identification of priorities, by and large, they are not used to assist in the allocation of resources between competing priorities nor are they used to prepare the Budget submissions which lead to the final Annual Budget.
  - The objectives and measures in business plans are often not those that are reported externally in the Budget Book.
2. In most cases, the objectives and measures published in the Budget Book are not useful in either managing a given Ministry or Department or in evaluating the efficiency or effectiveness of the activities or programmes of the Ministries or Departments.

There should be short and long-term objectives for all Ministries and Departments.

However, the objectives of the various Ministries and Departments as presented in the Budget Book often:

- do not focus on long term outcomes,
- do not focus on the impact of their activities on the customers they serve (the public), and
- are administrative in nature.

3. In many cases, the objectives in the Budget Book are not translated into measures that are directly related to stated objectives.

Often, the measures in the Budget Book:

- are focused on outputs (things produced) not outcomes (results),
- are absolute numbers that without context are not meaningful, and
- do not include any efficiency measures (how much a Ministry or Department is achieving relative to the resources expended).

In certain cases, the measures are not clear (in the sense that it is not possible for a lay person to determine what is being measured):

- often, there are few measures published in the Budget Book that directly or indirectly measure the customer experience;
- the published measures are not often used in the actual daily, monthly, quarterly, annual management of the Ministry or Department; and,
- outside of the Budget Book, there is no mechanism for public dissemination of these measures.

4. It is not clear that the measures Permanent Secretaries and Department Heads use to manage their Departments are reflected in the business plans.

5. It is not clear that there is a logical sequence which:

- starts from the development of a business plan and objectives,
- follows through to the development of objectives, measures and detailed financial projections to be reflected in the Budget Book, and then
- flows into a regular monitoring of the financial and non-financial measures which would then flow back into next year's strategic plan update, business plan and budget.

6. There is no Government-wide mechanism for receiving customer feedback, logging of complaints and monitoring of follow up:

- It is not always evident that there are defined principles and processes to develop an understanding of the customer experience and then incorporate the results of this understanding into the way Government Departments carry out their functions. Without established processes and procedures, it is difficult to measure effectiveness or efficiency.
- Close to a third of Departments undertake some form of customer satisfaction survey using the Measure to Improve approach developed and supported by the Department of E- Government. While this is important and we strongly encourage it, it is just one form of receiving feedback.
- Incorporating the customer experience as a part of the way Government does business would also help reinforce an accountability framework and assist Government in reporting on its successes, achievements and failures.

- The SAGE Commission believes that transparency in Government reporting is central to this process.
  - A number of the submissions the Commission received from the public specifically focused on this issue.
7. The quality of formal strategic planning, preparation of regular business plans and monitoring of results varies widely for quangos:
- A number of quangos the Commission reviewed had no formal strategic plans.
  - While all quangos we reviewed are required to submit an annual report to Parliament, which would include audited accounts, most were well behind on their reporting.
  - For a number of the quangos we reviewed, the management reporting suffered from the same general weaknesses identified for Ministries and Departments.

## Recommendations

1. The Cabinet Office and the Civil Service Executive must create a national strategic plan for Government based upon the political platform of the Government of the day. Cabinet should approve it.

The strategic plan should project out for 3 to 5 years and summarise:

- the important initiatives Government intends to implement,
- the outcomes it intends to achieve in the short, medium and long term,
- the additional resources required,
- changes in the existing services required in order to free up the resources needed, and
- important cross-Ministry and cross-Department coordination required.

This strategic plan should be published on the Bermuda Government website so that the public is kept informed.

Measurable outcomes should be included in a Performance Measurement Report which should be also be published on the Government web site.

On a quarterly basis using a dashboard reporting format, a condensed subset of the outcomes and measures should be measured and published on the web site. This reporting should be integrated with the annual Budget process.

Our recommendations apply equally to quangos. The Minister responsible for each quango should issue a policy directive to the relevant quango to develop strategic plans, business plans, outcomes, performance measurement reports and quarterly dashboards. These documents should be published on Government's web site as well as any web site maintained by an individual quango.

2. Each Ministry and then Department must prepare a strategic plan as above. The key outcomes and measures for Ministries must reside in and be reported as objectives and measures for the Ministry Headquarters (Ministry HQ). Ideally, these would be in the same general format.
3. Strategic plans, together with linked Ministry and Departmental objectives and outcomes, must be published on the Government web site to ensure that the public is informed with respect to Government-wide objectives. These reports will explain progress made against objectives as well as accomplishments or failures, as the case may be.

4. All strategic plans must be updated annually and published on Government's web site as of March 31 each year, reflecting Government's agenda as articulated in the Throne Speech and Budget.
5. Annually, in the second quarter of each fiscal year, each Ministry HQ and each Department must prepare a business plan for the following year in accordance with the guidelines currently in use by Government (the Business Plan 2006 guidelines).

These plans must set out the additional shorter-term objectives and measures (both basic operational and project/initiative-based) that support achieving the strategic plan's objectives and measures and measuring the efficiency of the use of the resources required.

The objectives need to be:

- Specific
- Measurable
- Achievable
- Relevant
- Time-Bound

The measures need to be:

- meaningful and understandable,
- focused on outcomes,
- customer-centric, and
- measure efficiency of delivery.

Of necessity, these business plans must be prepared in the context of the overall constraints faced by the Government of Bermuda and the guidance provided for the Budget established by the Ministry of Finance.

6. The initiatives for any particular Ministry expressed in the Throne Speech and the Budget should flow from the strategic plan and business plan. The business plan should therefore be completed by the end of the third quarter after completion of the Throne Speech and the submission of the final Ministry and Departmental budget submissions.

While there will inevitably be last-minute political level input into the Budget and also some level of re-ordering of current and following year business plan priorities each time there is a Throne Speech, this should only result in adjustments to the relevant business plans, objectives and measures.

Finalised business plans for the upcoming year, consistent with the Budget, must be published on Government's web site by March 31.

7. The reporting of objectives and related measures should be aligned with financial reporting and should show budget/actual outcome for the prior year, budget/estimated outcome for the current year and targeted outcome for the following year.

These objectives and measures should be more relevant to, fully reflective of, and consistent with, the objectives and measures in the business plan.

These reports must be published on the web site by March 31.

A template for a Performance Management Report, together with worked examples of what the

reports could look like for selected departments, can be found in the Measurement & Metrics section of the Appendix which is available to view on the flash drive included with this report.

8. The annual reporting must occur as of March 31 in each year and should must include:

- The full Performance Measurement Report for each Department and Ministry, reporting on the results and achievement of the prior year's business plan;
- A commentary on significant divergences of actual from targeted outcomes;
- A commentary on those objectives and measures that were not carried forward from the prior business plan and those that were added to the current business plan; and,
- A commentary on changes in the current year strategic and business plans from those in the prior year.

9. There must be a formal, unified system which permits customers of Government services and taxpayers to give feedback on the services that each Ministry and Department provides and to make complaints.

This system would be separate from the Ombudsman's office, such that each user of Government services would have the ability to provide feedback and each Department and Ministry would have the opportunity to resolve issues prior to the Ombudsman being involved.

This system should ensure regular reporting to the Ministry and Department concerned of the individual comments and complaints and, in the case of complaints, documentation of the steps taken to resolve the issue.

Please note that the Performance Measurement Reports of the Appendix have a specific section which is focused on the customer experience and summary statistics related to customer complaints should be part of the regular quarterly and annual reporting. The results of this additional analysis can be found in the Measurement & Metrics section of the Appendix which is available to view on the flash drive included with this report.

It is recommended that the existing formal complaint mechanism under the Police Complaints Authority continue and that the Police make use of other customer service measures beyond the complaint mechanism.

10. The Central Policy Unit within the Cabinet Office must support the Ministries and Departments in:

- preparing their strategic plans and annual business plans,
- developing the quantifiable measures (particularly around outcomes), efficiency and customer satisfaction, and
- developing the systems and processes for doing the measuring.

The role of this unit would be to provide advice and ensure consistency.

In order to be effective, the Central Policy Unit will require additional resources.

11. Internal Audit should be charged with ensuring that the systems and processes for measuring and reporting are appropriate and verifiable and that numbers reported in the Budget Book and Final Reports are accurate.

Currently, Internal Audit does not have adequate resources to perform more than 10 –15 operational audits a year. Additional specialised resources should be authorised and recruited to permit this Department to perform audits of the measurement systems of all Ministries and Departments on a 3-year cycle.

12. As part of the overall push to ensure transparency, business plans should deal with the actions required to respond effectively to the reports from oversight bodies including the Auditor General, Internal Audit and the Ombudsman and the Performance Measurement Report should record the existence and date of issuance of these reports, including whether and when these reports have been responded to.

## BUDGETARY CONTROL

### Observations

In the SAGE Commission's meetings with the Budget Director, the Financial Controllers and a number of Department Heads, we learned that:

- a. Budget reductions were directed by the Ministry of Finance that, in the opinion of those with responsibility for implementing them, were unrealistic and unachievable.
- b. There was little meaningful engagement by the Ministry of Finance with the relevant Ministries and Departments to understand the issues they faced and thus no combined effort to either make the difficult political (with a small "p") choices that were required to cut or reduce services within the Ministry or Department or engage with other Ministries or Departments to determine where alternative reductions were feasible.
- c. While the Budget Director regularly reviewed budget versus actual reports and raised, with the relevant Departments or Ministries, the possibility or likelihood of budget overruns, there was no mechanism at the Ministry of Finance level to meaningfully and proactively engage with the Permanent Secretaries individually (or as a whole) to resolve the issues and bring the overall Government Revenues and Expenditures in on budget.
- d. In our interviews with the Secretary to the Cabinet and the Financial Secretary, the blame for budget overruns and persistent overspending was largely placed on politicians. While there is an established process by which the elected representatives can override the advice of the senior Civil Servants, there are certain matters which, under Financial Instructions, belong solely to the Civil and Public Service. Based upon reports made to us in our interviews and in the reports of the Auditor General, there are too many instances of breaches of Financial Instructions, generally without penalty, for us to conclude that no blame rests with senior members of the Civil and Public Service.

### Recommendation:

In strengthening budgetary control, the Financial Secretary, together with the Budget Director and Accountant General, must:

1. Ensure that all budgets for Ministries and Departments that are submitted to the Ministry of Finance and incorporated in the February Approved Estimates of Revenue and Expenditure for the Year (the Budget Book) are realistic and achievable; and
2. Actively monitor and control expenditures made by the Permanent Secretaries and the Department Heads to ensure that all revenues and expenditures remain within their allocated budgets or, in exceptional circumstances, expenditures are reduced in other Ministries or Departments sufficient to offset any identified shortfalls.

## PRIVATISATION & OUTSOURCING: The Right Services for the Right Price

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Depending upon one's perspective, the subject of privatisation and outsourcing prompts a variety of reactions.

Those working in the public sector are likely to view the subject with suspicion and skepticism, given the inherent threat it represents to employment; those in the private sector generally see opportunities for entrepreneurship and business development.

The SAGE Commission feels the most objective, as well as strategic, approach to considering whether Government programmes and services should be privatised or outsourced is to ask two questions:

1. Can Government afford to provide this service or programme?
2. Is this programme or service really necessary?

We feel that if these two questions are kept uppermost as privatisation and outsourcing opportunities are considered, decisions are likely to be made in a pragmatic and objective manner to the benefit of the greater good.

However, while these decisions should be made in a measured and thoughtful fashion, the dire situation Bermuda finds herself in demands urgent action.

Taking this urgency into consideration, we started our review process by defining privatisation and outsourcing as follows:

**Privatisation** the process of transferring ownership of a business, enterprise, agency, public service or public property from the public sector (a government) to the private sector, either to a business that operates for a profit or to a non-profit organisation.

**Outsourcing** is the contracting out of a business process to a third-party – in this case, a public sector function of service to a private entity.

We then set aside those programmes and services that we believe should be owned by and provided directly to the public by Government, believing that it's possible to deliver these programmes and services efficiently and effectively.

In this regard, we first set aside all Departments and activities involved in the formulation of policy and strategy, which are the responsibility of the elected political representatives, guided by the Cabinet Office and senior Civil Service executives.

Potential results and decision drivers outlined in this section were treated as directional; none on their own determined our thinking in reaching our final recommendations, but they provided a framework within which to guide research and form opinion.

Policy and strategy may be influenced by specialist consultants as determined necessary, but they should be owned and directed by Government, not delegated to a third party.

We determined that any recommendations should create opportunities to:

- Provide net operating savings to Government
- Provide enhanced service levels to the Bermuda public
- Reduce the physical plant required by Government (e.g. space, equipment)
- Reduce Government debt and other long-term liabilities (e.g. pensions)
- Encourage new small business development

In addition, we expect any privatisation actions to provide reliable and consistently priced long-term coverage of public service requirements.

We also looked for additional potential to:

- Absorb current public sector staff in the new private sector function or entity
- Monetise Government assets (sale or lease of land, buildings, equipment)

In addition, we considered the potential of any privatisation actions to provide some level of local public ownership or profit sharing, as well as new job and/or revenue creation through new business growth.

Finally, we agreed a set of negative and positive decision drivers to determine the most promising candidates for privatisation or outsourcing. We reviewed each service/function against the following drivers:

Drivers for privatisation:

- Currently competes with the private sector
- Realises (or could realise) sustainable revenue
- Can attract private sector investment
- Can be profitable at market service rates
- Based on a clear and sustainable business plan
- Delivers substantial monetisation value

Drivers against privatisation:

- Is an essential public service (e.g. Police, Fire, Regulatory bodies)
- Subject to strict confidentiality/national interest (e.g. Immigration, Attorney General)
- Vulnerable to political/legislative change
- Requires substantial ongoing subsidisation (e.g. social services, education)

Drivers for outsourcing:

- Is currently available at competitive rates in the private sector
- Comprises specific project scope/duration (contractable)
- Allows for clearly measurable desired outputs/KPI's
- Has an available contingency
- Potential for performance guarantees

Drivers against outsourcing:

- Loss of Government control
- Possible significant workforce redundancy

Virtually every area of Government received some measure of consideration, but, given the strict time constraints placed on the SAGE Commission, we attempted to focus our analysis on those privatisation and outsourcing opportunities that promise more manageable, practical implementation, as well as more beneficial financial impact and/or less disruption to ongoing provision of services to the Bermuda public.

An overarching consideration has been the knowledge that privatisation and outsourcing initiatives are never simple: even the smallest outsourcing agreement must be meticulously planned, with clear objectives and time frames, and carefully contracted service level agreements.

Such initiatives should not be pursued as one-offs in the absence of a larger outsourcing/privatisation plan that forms part of Government’s overall strategic plan and is subject to strict control and oversight.

As we mentioned earlier, policy and strategy are the responsibility of Government; execution may be privatised or outsourced, but Government must remain accountable for the sustainable provision of required services to the public.

The Commission is concerned about the manner in which our recommendations may be implemented.

As we look across Government today, we see no strategic plan for proactive management of Government assets or coordinated delivery of public services. Many of the functions and services that we have reviewed tend to reside within operating ‘silos’ of the Civil Service, and any attempt to outsource or privatise them within the current structure would almost certainly be piecemeal.

In this regard, we are encouraged by the recent formation of the Office of Project Management and Procurement (OPMP) within the Ministry of Finance. While we understand that OPMP is currently subject to further review and is, consequently, not yet fully staffed, we believe that it will play a key role in oversight of the implementation of any of our recommendations that the Government chooses to endorse.

Beyond that, however, we recommend that Government urgently form an independent Privatisation & Outsourcing Authority with a 6-year term, accompanied by a sunset provision, to review all Government businesses and entities on an ongoing basis to determine whether Government involvement continues to be justifiable.

Where appropriate opportunities present themselves, the Authority should assume primary responsibility for promoting, facilitating, and overseeing all competitive outsourcing activities. OPMP should, therefore, assist the Authority, providing high-level management expertise and ensuring fairness and efficiency in all contracting, privatisation and outsourcing initiatives.

While we have limited our recommendations to privatisation or outsourcing opportunities that we believe are achievable within a reasonable time frame and will produce meaningful savings and/or service enhancements, we would expect the Authority to conduct a much broader and deeper review of Government services in a continuous effort to identify and realise improved efficiency and delivery across government.

Beginning in the 1980’s, privatisation and outsourcing have been embraced by most western governments in an effort to address structural budget shortfalls and enhance delivery of public services to citizens. The types of services contracted out in the US, for example, include:

Airline Operation & Maintenance	Highway Maintenance	Prisons
Property Tax Assessment	Hospitals	Waste Collection/Treatment
Bus Services	Legal Services	Special Educational Services
Maintenance of Public Buildings	E-Government Services	Day Care
Fleet Maintenance	Public Health Services	Debt Collection
Parks & Recreation	Welfare Services	Data Processing
Job Training	Fire Services	Human Resources
Nursing Homes	Parking Services	

Given the very small size of Bermuda’s economy, the private sector is limited relative to other jurisdictions in its capacity to absorb public sector services, so privatising or outsourcing many of the above services may be more challenging.

Nonetheless, success demonstrated elsewhere should dictate that the Authority maintains a continuous and diligent review of all Government services to identify such opportunities.

Yet we believe that the following recommendations are so compelling as to speak for themselves. Under the direction of an appropriately qualified and authoritative Privatisation & Outsourcing Authority, we believe these recommendations should be pursued as soon as possible.

## **Recommendations – *Privatisation***

Given the small size of the Bermuda market, capital available in the private sector for privatisation opportunities is limited: very large projects may require significant foreign investment and/or ownership, and Bermuda's 60-40 rules may have to be relaxed to accommodate such transactions.

We also note that great care should be taken in privatisation transactions that would result in the creation of monopoly providers, as we believe that competition is a key driver of innovation to reduce costs and enhance service.

Where monopoly structures are the best solution for Bermuda, Government should maintain fair pricing through a Regulatory Authority.

We believe assistance could be sought from the UK Government which has a track record of successful privatisations and outsourcing: thus our recommendation to create an experienced and effective Privatisation & Outsourcing Authority before moving ahead with any transactions.

We recommend the establishment of a Privatisation & Outsourcing Authority as an independent body. This authority would consist of seven appointments by the Minister of Finance, with two to be made from members of the Trade Union Congress.

The Authority should be charged with reviewing all Government businesses and entities to determine whether Government involvement continues to be justifiable.

Where appropriate opportunities present themselves, the Authority should assume primary responsibility for promoting, facilitating, and overseeing all competitive outsourcing activities.

Given that there is a finite number of Government services to be considered for either privatisation or outsourcing, the Authority should have a sunset provision to expire after six years.

We recommend that Government remain an equity investor in all privatisation ventures to both maintain some influence over future service delivery and pricing and encourage the hiring and training of Bermudian staff.

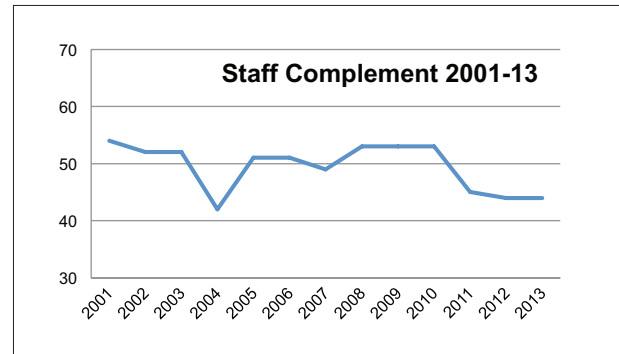
In alphabetical order, we recommend that the following services be considered for privatisation by the Authority, and we have included a brief summary analysis for each:

- Airport Operations, Ministry of Tourism Development & Transport
- Civil Aviation, Ministry of Economic Development
- Highways, Ministry of Works & Engineering
- Maritime Administration, Ministry of Economic Development
- Public Lands & Buildings, Ministry of Works & Engineering
- Waste Management, Ministry of Works & Engineering
- Water & Sewage, Ministry of Works & Engineering

## 1. Airport Operations, Ministry of Tourism Development & Transport:

### 2013/2014 Budget Highlights:

Expenditure Total	\$19,777,000
Revenues Total	\$10,336,000
Operating Profit/(Loss)	(\$9,441,000)
Employees	44



Drivers for privatisation	Competes with the private sector	Realises (or could realise) sustainable revenue	Can attract private sector investment	Can be profitable at market service rates	Based on a clear and sustainable business plan	Delivers substantial monetisation value
		✓	✓	✓	✓	✓
Drivers against privatisation	Is an essential public service	Subject to strict confidentiality national interest	Vulnerable to political / legislative change	Requires substantial ongoing subsidisation		
	X	X		X		

### Observations

- The Department has a well-developed three-year strategic plan as well as a five-year master plan. Its objectives span beyond merely maintaining basic functionality of the airport and contemplate ambitious and creative means of increasing revenue. Management noted a critical need to raise capital in order to make vital renovations to the ageing infrastructure of the airport and, ultimately, to complete a full reconstruction of the facility.
- The Department already outsources a large number of its key functions and is looking to engage with additional third parties to develop partnerships to reduce operating costs and increase revenue. A primary strategic initiative is to contract with a third party vendor to operate a renewable energy plant on one large area of the airport's property.
- Management noted a number of challenges, including budget constraints and restrictive Government bureaucracy which delays progress against its strategic plan.
- The Department has also given high-level consideration to privatisation opportunities, including a proposal for a public/private structure which could potentially fund the reconstruction of its current facility.

- Another objective of the Department involves taking over the airspace of Bermuda – which is currently maintained by the US Federal Aviation Administration (FAA) – as a means of recognising further revenue. This initiative, which has been put before Cabinet, has the potential to generate significant fees for the Department.
- It should be noted that the airport has been made financially responsible for payments arising out of certain minimum revenue guarantees which Government has entered with two airlines and which ultimately subsidise those carriers in the event that the flights do not reach capacity targets. These agreements have proven to be costly for the Department. If the new Tourism Authority has not been tasked with negotiating minimum revenue guarantees, we recommend that these agreements be transferred to the Authority. In 2011, the cost of these guarantees was \$2.8 million.

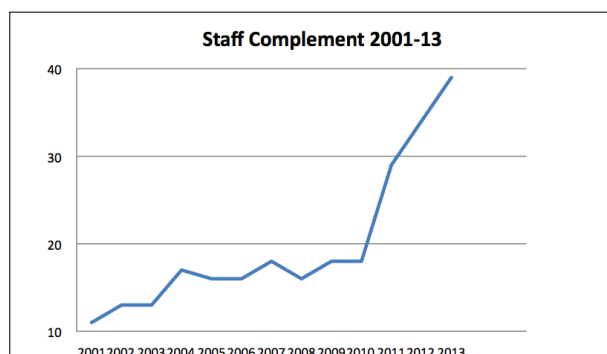
## Recommendations

- The Privatisation & Outsourcing Authority should encourage the continued expansion of the current outsourcing model in the short term while reviewing more complex privatisation proposals to attract new capital to fund a complete upgrade of the airport facility. Given the sizeable current operating losses of the Department, continuing Government subsidy will likely be required.
- Legislative change is required to realise the renewable energy opportunity. As this promises to deliver real value to the airport, and a significant reduction on dependence on foreign oil which we purchase with foreign currency, we encourage urgent attention.

## 2. Civil Aviation, Ministry of Economic Development:

### 2013/14 Budget Highlights:

Expenditure Total	\$10,500,000
Revenues Total	\$23,562,000
Operating Profit	\$13,062,000
Employees	39



Drivers for privatisation	Competes with the private sector	Realises (or could realise) sustainable revenue	Can attract private sector investment	Can be profitable at market service rates	Based on a clear and sustainable business plan	Delivers substantial monetisation value
		✓	✓	✓	✓	✓
Drivers against privatisation	Is an essential public service	Subject to strict confidentiality national interest	Vulnerable to political / legislative change	Requires substantial ongoing subsidisation		

## Observations

- The Department size is 38.6% of the Ministry's total staff of 101; Department costs are 44.6% of the Ministry's operating budget of \$93.7 million
- The Department consists of Airworthiness, Policy & Administration, Operations, and Registrations.
- This is a profitable department with relatively low overhead and tightly-controlled operating costs.
- The Aircraft Register (of approximately 700+) is heavily weighted with Russian aircraft; there is concentration risk to the portfolio. Further diversification is required.
- A major obstacle to efficient operations and business expansion is Government bureaucracy with respect to hiring, performance assessment, incentives, and approvals of expansion propositions.
- The UK Civil Aviation Authority has international oversight: the register has been temporarily capped for expansion due to staff shortage and liability concerns. This represents a loss of potential new business and revenue in a robust market.
- The Department has a profile of a Bermuda based International company that cannot compete effectively.

- Restraints on staff travel caused by Government's budget freeze is severely impacting business as staff must travel to inspect airplanes, market services, etc.
- The proposal to become an Authority has been denied in the past.

## **Recommendations**

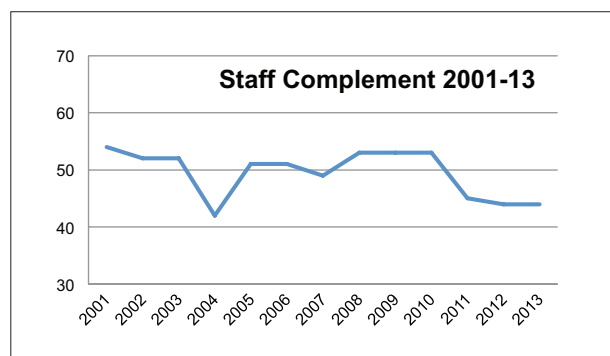
- Despite potential regulatory and liability issues, we believe the Department of Civil Aviation represents a compelling privatisation opportunity. It needs to be freed from the operating constraints placed upon it as a Government Department, and must operate more like a commercially driven private sector entity. As it is a sovereign register with liability and reputational issues for Bermuda, this would be a complex transaction and would probably merit substantial equity participation by Government.

If privatisation is not an acceptable solution, we recommend that the Department be converted to a quango structure like the Bermuda Monetary Authority. We believe that the new Privatisation & Outsourcing Authority should work with the Department to do an in-depth review of alternatives available in this regard.

### 3. Maritime Administration, Ministry of Economic Development:

#### 2013/2014 Budget Highlights:

Expenditure Total	\$1,904,000
Revenues Total	\$4,150,000
Operating Profit/Loss	\$2,246,000
Employees	11



Drivers for privatisation	Competes with the private sector	Realises (or could realise) sustainable revenue	Can attract private sector investment	Can be profitable at market service rates	Based on a clear and sustainable business plan	Delivers substantial monetisation value
		√	√	√	√	√
Drivers against privatisation	Is an essential public service	Subject to strict confidentiality national interest	Vulnerable to political / legislative change	Requires substantial ongoing subsidisation		

### Observations

- The Department operates a shipping registry for the benefit of Bermuda ship owners and other international entities who qualify under its Merchant Shipping legislation for registration under the Bermuda flag. Its duties are primarily dictated by International Conventions which are designed to ensure the safety of navigation, shipping operations, maritime security, control of pollution and the maintenance of seafarers' qualifications of all ships and vessels within the Department's remit.
- Unlike many other Government Departments which have been inflated in recent years, this Department has been severely understaffed for a prolonged period. This is what led to the UK Government's decision in 2012 to "freeze" the current size of Bermuda's Shipping Registry in order to ensure no quality and safety control measures are jeopardised due to the Department's limited number of surveyors. The surveyors are overburdened particularly as, due to budget restraints, they cannot be reimbursed monetarily for overtime: thus, they are awarded time-in-lieu which exacerbates the staffing problem.
- Due to budget constraints, the Department has been unable to realise growth through marketing efforts. Given the increasing competition for this business internationally and the revenue opportunities it presents, the Department should be attending international shipping conferences and related events to maintain its reputation, market its brand and ultimately expand its Shipping Register. One objective which has been highlighted as

critical to its operation is the introduction of a UK office both to service vessels located there and as a further opportunity to market itself in the jurisdiction.

- Should the Department be given the budget, staffing and ability to engage in strategic global marketing activities, the Department could expand the Shipping Registry significantly and recognise further revenue for government.

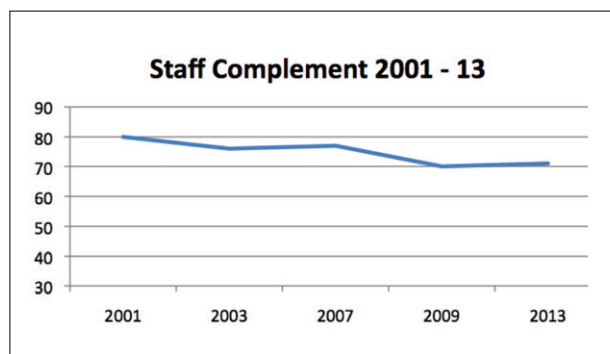
## **Recommendations**

- The Privatisation & Outsourcing Authority should review the potential for privatising Maritime Administration to monetise the potential revenue stream and allow for staff growth to meet market demand. Should outright privatisation not be an option (e.g. legal and/or regulatory issues), a quango structure like that of the Bermuda Monetary Authority should be considered to separate Maritime Administration from restrictive Government bureaucracy and allow more autonomous and flexible growth. In particular, there is a need to compete effectively for adequate resources to drive success in a very competitive market. We believe that the new Authority should work with the Department to do an in-depth review of alternatives available in this regard.

## 4. Highways, Ministry of Works & Engineering:

### 2013/14 Budget Highlights:

Expenditure Total	\$6,325,000
Revenues Total	\$0
Operating Profit /(Loss)	(\$6,325,000)
Employees	71



Drivers for privatisation	Competes with the private sector	Realises (or could realise) sustainable revenue	Can attract private sector investment	Can be profitable at market service rates	Based on a clear and sustainable business plan	Delivers substantial monetisation value
	✓	✓	✓	✓	✓	✓
Drivers against privatisation	Is an essential public service	Subject to strict confidentiality national interest	Vulnerable to political / legislative change	Requires substantial ongoing subsidisation		
	X					

## Observations

- This Department employs 12% of the Ministry's total staff of 571 and consists largely of blue-collar workers. Expenses are 10% of the Ministry's operating costs which total \$61.4 million.
- The balance sheet for the Department was not available for review but there are substantial fixed assets in the form of the asphalt plant and trucks and machinery required to lay asphalt.
- Bermuda has one other asphalt provider – East End Asphalt – but there are a number of other companies that do asphalt resurfacing work.
- The Department consistently fails to meet annual objectives for resurfacing Bermuda's roads.
- Union agreements present obstacles to scheduling efficiency and productivity. For example, while road workers are scheduled to commence work at 7:30 am, road repairs usually can't start until after 9:00 am to allow for rush hour traffic. As a result, the workers don't do much during this time frame. Government has not been successful in changing the working hours to a more flexible time.

## Recommendations

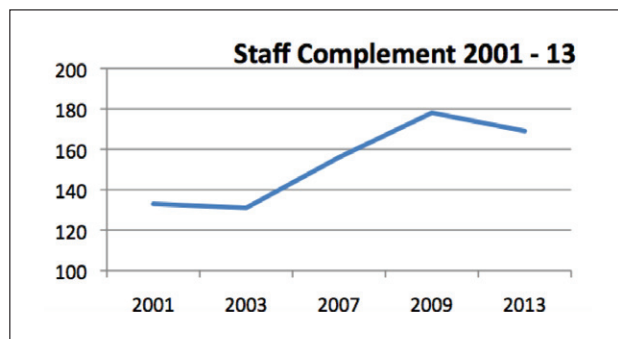
- This Department is a prime candidate for privatisation or at least outsourcing and asset sales, and should be carefully reviewed by the Authority, who should provide ongoing management oversight relating to contract specifics and quality control.

## 5. Public Lands & Buildings, Ministry of Works & Engineering:

### 2013/14 Budget Highlights:

- Responsible for the effective management of all public lands and buildings, including insurance, maintenance and repairs, and managing all leases and licenses (including foreshore and seabed). Inspects all 780 Government (non-quango) owned properties annually.

Expenditure Total	\$22,869,000
Revenues Total	\$1,700,000
Operating Profit /(Loss)	(\$21,169,000)
Employees	169



Drivers for privatisation	Competes with the private sector	Realises (or could realise) sustainable revenue	Can attract private sector investment	Can be profitable at market service rates	Based on a clear and sustainable business plan	Delivers substantial monetisation value
		√	√	√		√
Drivers against privatisation	Is an essential public service	Subject to strict confidentiality national interest	Vulnerable to political / legislative change	Requires substantial ongoing subsidisation		

## Observations

- The Department employs 30% of Ministry's staff total of 571, and expenses are 37% of the Ministry's total budget of \$61.4 million.
- Labour costs total \$12.34 million (54% of total Department expenses).
- 16% of labour costs (\$1.945 million) are professional fees which indicate some outsourcing.
- Annual insurance fees are projected at \$8.2 million; all insurance is placed through one broker.
- The Department Head: Buildings Manager, but also "Acting" Chief Surveyor (since 2009).
- Our interviews identified a lack of an integrated long-term asset management plan for the Bermuda Government: we noted a number of unused/underutilised properties and situations where space is unnecessarily leased from the private sector (at a rental cost of \$13.2 million as listed in the 2013/14 budget). These included property rented or leased by the Bermuda Land Development Corporation (BLDC) and the West End Development Corporation (WEDCO), and property rented or leased in the Prospect area (including buildings formerly housing hospital facilities).

- Our interviews identified that maintenance and repair work is done by staff in other sections of Public Works as well as in other Ministries.

## **Recommendations:**

- A corporate asset management plan should be developed for the Bermuda Government on an urgent basis. This should be accomplished within 3 months.
- All Government property should be recognised as a corporate resource and managed so as to support the goals and objectives of Government over the long term. The SAGE Commission believes that such a plan should be subject to oversight by the Privatisation & Outsourcing Authority and that all transactions (leases, purchases, sales) should be reviewed and approved by OPMP.
- The Commission was not able to engage in an in-depth review of Government assets but we suspect that there may be significant monetisation opportunities available through sale of unused or underutilised properties. Examples of such opportunities are Teucer House and the building that housed the former Police Station on Parliament Street, as well as the seabed from shoreline to the 12-mile territorial limit ("Queen's Bottom") and the developable but unneeded land attached to Government-owned golf courses.
- There are savings to be realised through transferring staff from rental premises into Government-owned buildings.

## 6. Waste Management, Ministry of Works & Engineering:

### 2013/14 Budget Highlights:

Expenditure Total	\$17,551,000
Revenues Total	\$5,030,000
Operating Profit /(Loss)	(\$12,521,000)
Employees	139



Drivers for privatisation	Competes with the private sector	Realises (or could realise) sustainable revenue	Can attract private sector investment	Can be profitable at market service rates	Based on a clear and sustainable business plan	Delivers substantial monetisation value
	✓	✓	✓	✓	✓	✓
Drivers against privatisation	Is an essential public service	Subject to strict confidentiality national interest	Vulnerable to political / legislative change	Requires substantial ongoing subsidisation		
	X			X		

### Observations

- Department size is 24% of the Ministry's total staff of 571 and Department costs are 28.5% of Ministry operating budget of \$61.4 million.
- There are only 3 staff considered 'Management' with the balance involved in the various operations within Waste Management and therefore considered blue collar workers. 55 Staff members are dedicated to Solid Waste Collection and 33 to Tynes Bay Operations.
- The revenue contribution from this Department is attributable as follows: \$3.5 million from Waste Collection & Disposal, \$10,000 from Recyclables, and \$1.5 million from Electricity sales.
- While there is no balance sheet provided, the value of fixed assets are substantial and would include the Tynes Bay Incinerator and associated equipment, Waste Collection vehicles, the Recycling Plant machinery as well as the Composting and Airport Disposal Equipment.

### Recommendations:

- This Department is a prime candidate for privatisation with substantial monetisation opportunities for Government. We are aware of expressions of interest previously presented to Government relating to privatising and/or outsourcing certain functions within Waste Management. These should be fully explored by the Authority. But it would be important that Government policy dictate that proposals encompass the Department's entire operations versus allowing vendors to 'cherry-pick' various assets and operations.

## 7. Water & Sewage, Ministry of Works & Engineering:

### 2013/14 Budget Highlights:

Expenditure Total	\$5,165,000
Revenues Total	\$4,865,000
Operating Profit /(Loss)	(\$299,000)
Employees	24



<b>Drivers for privatisation</b>	<i>Competes with the private sector</i>	<i>Realises (or could realise) sustainable revenue</i>	<i>Can attract private sector investment</i>	<i>Can be profitable at market service rates</i>	<i>Based on a clear and sustainable business plan</i>	<i>Delivers substantial monetisation value</i>
	✓	✓	✓	✓	✓	✓
<b>Drivers against privatisation</b>	<i>Is an essential public service</i>	<i>Subject to strict confidentiality national interest</i>	<i>Vulnerable to political / legislative change</i>	<i>Requires substantial ongoing subsidisation</i>		
	X					

## Observations

- Department size is 4% of the Ministry's total staff of 571 and Department operating costs are 8.4% of Ministry operating budget of \$61.4 million. As is normal in this business, there can be large capital expenses that relate to the operations of the water and sewage treatment plants and the delivery systems associated with such. Of note in the 2013/14 budget, \$700,000 is budgeted for work relating to Reverse Osmosis treatment plants. This figure is a portion of the \$1.4 million total available funds set aside for such operations.
- Government had struggled to deliver service in this industry, hence the Memorandum of Understanding with Bermuda Waterworks regarding the expansion of pipeline delivery systems into the western end of the Island. This appears to be working well.
- A balance sheet analysis would need to be undertaken with regard to valuing the fixed assets within this Department, but in reality there is no reason Government needs to be in the water and sewage treatment and delivery business, as there is vibrant and experienced private sector involvement in this business sector.
- Potential worries about monopoly pricing should be mitigated through a Regulatory Authority.

## Recommendations

- Based on our research and observations above, the water treatment and delivery service is a prime candidate for total privatisation and should be fully explored by the Authority.
- The sewage element is also a prime candidate to be outsourced or opportunities pursued with other sewage entities which may include the Municipalities.

## Recommendations – *Outsourcing*

There is considerable scope for outsourcing Government services in Bermuda. During our interviews with Department Heads, we were advised of a number of functions that have been successfully outsourced. These include maintenance of the Railway Trail, road trenching, health insurance claims administration, security services, asphaltting, plumbing, painting, and electrical work.

Most such arrangements, however, address the lack of capacity within Government Departments to deliver services rather than a strategic and coordinated attempt to realise cost savings or service enhancement. There are encouraging exceptions (e.g. the Health Insurance Department has outsourced processing extensively) but there is no evidence that outsourcing has been embraced as a strategic tool across the Government.

As noted earlier, we believe that a Government-wide strategic planning process must be implemented, within which the Privatisation & Outsourcing Authority should continuously review all Government businesses and entities to determine whether Government involvement is justifiable or whether cost efficiency and service quality can be improved by outsourcing to the private sector.

Where compelling outsourcing opportunities are identified, every effort should be made to transfer Government staff currently handling the relevant functions to the outsource partner; we believe there may be opportunity to support ambitious Government staff in setting up their own private sector businesses by seeding them with competitively priced Government contracts (subject to oversight by OPMP).

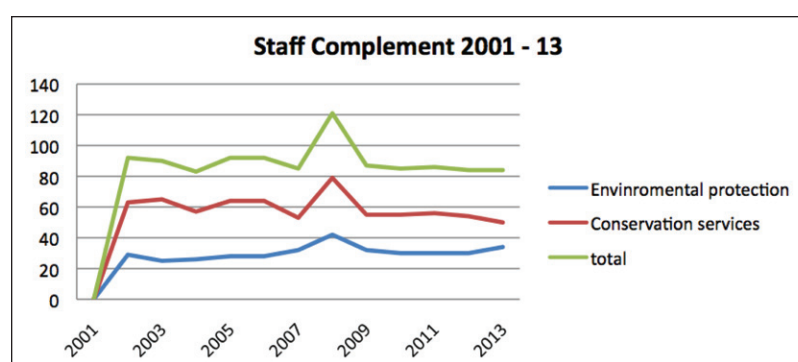
In alphabetical order, we recommend that the following services be considered for outsourcing by the Privatisation & Outsourcing Authority, and we have included a brief summary analysis for each:

- Conservation Services, Ministry of Environment & Planning
- Department of Corrections, Ministry of Public Safety
- GEHI and Health Insurance Department, Accountant General and Ministry of Health & Seniors
- Human Resources Department, Cabinet Office
- Marine & Ports, Ministry of Tourism Development & Transport
- Parks: Maintenance, Ministry Environment & Planning
- Public Lands & Buildings: Maintenance, Ministry of Works & Engineering
- Public Transportation, Ministry of Tourism Development & Transport
- Transport Control Department, Ministry of Tourism Development & Transport
- Youth, Sport & Recreation, Ministry of Community & Cultural Development
- Vehicle & Equipment Operations & Maintenance, Ministry of Works & Engineering

# 1. Conservation Services: Ministry of Environment & Planning

## 2013/2014 Budget Highlights:

	CONSERVATION SERVICES	ENVIRONMENTAL PROTECTION	TOTAL
Expenditure Total	\$4,851,000	\$4,074,000	\$8,825,000
Revenues Total	\$510,000	\$851,000	\$1,361,000
Operating profit/(loss)	(\$4,341,000)	(\$3,223,000)	(\$7,564,000)
Employees	50	34	84



Drivers for outsourcing services	Is currently available at competitive rates in the private sector	Comprises specific project scope/ duration (contractable)	Allows for clearly measurable desired outputs/KPI's	Contingency available	Potential for performance guarantees
	√	√	√	√	√

Drivers against outsourcing services	Loss of Government control	Potentially significant workforce redundancy
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## Observations

- The objective of Conservation Services is “to conserve and promote Bermuda’s natural and maritime heritage through research, education, advocacy and restoration”. One of their key objectives is to “produce scientific papers and technical reports”.
- Current research projects by 3 staff in the Biodiversity/Ecology section include the Bermuda Turtle Project, Solitary Bee Taxonomic Study, and other studies involving local Killfish, Diamondback Terrapin, Skink, Ferns and Mangroves.
- Current research projects by 3 staff in the Marine Conservation section include benthic habitat mapping and deepwater coral sampling.

- Three Marine Research officers oversee Environmental Protection scientific research projects as a part of their role to “(1) conduct original research, monitor and collect information on marine species, (2) develop and maintain all databases and analyse data, and (3) produce reports and scientific papers on information and analyses”.
- There are accredited entities in Bermuda such as Bermuda Institute for Ocean Sciences (BIOS) and Bermuda Zoological Society (BMZS) who can conduct research projects with scientific rigour and objectivity. Outside of Bermuda, there exist many more world-class providers of research.
- It is not clear as to whether the scientific research projects required by Government are best performed by full-time staff, with their attendant costs, benefits, etc. Furthermore, it is preferable that such research be done independently and without influence. This is best achieved by outsourcing the work and the reports made public.

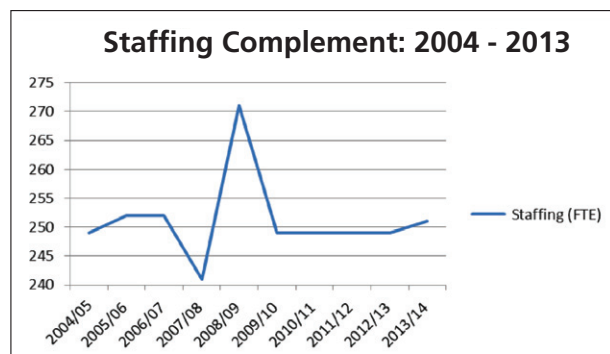
## Recommendations

- Eliminate all 8 research positions.
- Review all current research projects done by Conservation Services and Environmental Protection to determine which are essential to Government.
- The Privatisation & Outsourcing Authority should then engage with the Department to review opportunities for outsourcing of research on a project-by-project basis, with clear specifications around deliverables, timelines and cost.
- The Department should divest itself of all vehicles, marine vessels and equipment currently used exclusively for research, thereby raising funds and reducing overhead costs.

## 2. Department of Corrections: Ministry of Public Safety

### 2013/2014 Budget Highlights:

Expenditure Total	\$27,469,000
Revenues Total	\$0
Operating Profit /(Loss)	(\$27,469,000)
Employees	251



Drivers for outsourcing services	Is currently available at competitive rates in the private sector	Comprises specific project scope/ duration (contractable)	Allows for clearly measurable desired outputs/KPI's	Contingency available	Potential for performance guarantees
	√	√	√	√	√
Drivers against outsourcing services	Loss of Government control	Potentially significant workforce redundancy			
	X	X			

## Observations

- Staffing at the Department of Corrections accounts for 24% of the Ministry's staff (1,035).
- The Department of Corrections' expenditure accounts for 22% of the Ministry's expenditure.
- Salaries and wages make up 74% of Corrections' total expenditure.
- Of the 251 staff, 113 (45%) are stationed at Westgate Facility, 44 (18%) are at Farm Facility, and 41 (16%) are at Coeducational Facility; 25 (10%) are in an administrative function.
- At the request of Government, Mr. Philip Wheatley performed an extensive review of the Corrections Department in May 2012 and followed up with 2 subsequent reviews in August and November. The reports and subsequent observations were highly critical and indicate that there are serious operational weaknesses that need to be addressed. This was confirmed in our interview with the Head of Corrections who clearly faces a number of challenges in streamlining work processes and improving performance. The situation is exacerbated by a poor relationship with the Prison Officers' Association.
- The average cost per inmate per year is approximately \$80,000; the average daily inmate population is 283.
- Included in the Wheatley reports were observations that non-violent prisoners should be given the opportunity to work within the prisons (e.g. grounds and building maintenance)

and that many non-contact roles with prisoners (e.g. gate staffing, control rooms, escorts and night patrols, etc.) could be assigned to less expensive, less highly trained staff rather than to highly trained Prison Officers.

- Mr. Wheatley also recommended the purchase of a secure van for transporting prisoners and encouraged greater use of the video link between Westgate and the courts to reduce transport activity.

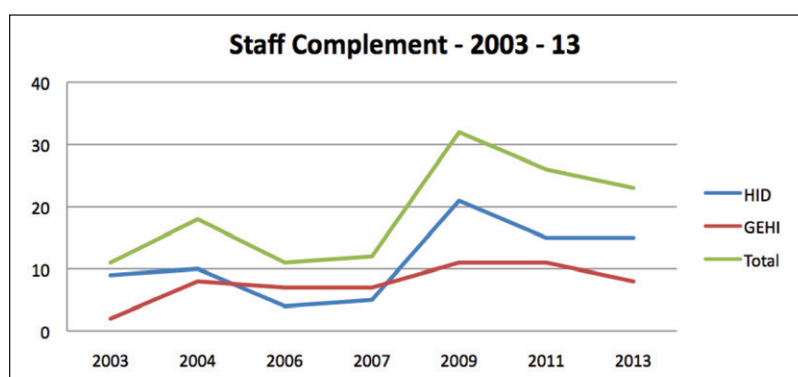
## Recommendations

- There is an urgent need to attend to the multiple problems evident in the Corrections Department. While the primary actions required appear to be streamlining and performance related, we believe that the Privatisation & Outsourcing Authority could be helpful in identifying outsourcing opportunities to reduce operating expense. In particular, the use of Prison Officers to perform tasks below their pay grade should be investigated and some of that work outsourced on a part-time basis.
- We also see merit in employing non-violent prisoners wherever possible to reduce expense, provide them with earning and learning opportunities, and prepare them for a return to civilian life.
- As an alternative to continued confinement, we recommend the use of electronic tagging of non-violent offenders (such as for traffic offences and other minor offences where a fine is insufficient) and also for offenders nearing the end of the periods of imprisonment where such restriction of liberty and the ability to move freely is an appropriate punishment. This would have the effect of reducing the prison population and the high costs associated with each prisoner.
- We recommend that a secure van for transporting prisoners be purchased and we also support Mr. Wheatley's recommendation for greater use of the video link between Westgate and the courts to reduce transport activity.

### 3. Health Insurance Department (HID) and Government Employee Health Insurance (GEHI): Accountant General and Ministry of Health & Seniors

#### 2013/2014 Budget Highlights:

	HID	GEHI	TOTAL
Expenditure Total	\$11,300,000	\$33,776,000	\$45,076,000
Revenues Total	N/A	N/A	N/A
Operating profit/(loss)	(\$11,300,000)	(\$33,776,000)	(\$45,076,000)
Employees	15	8	23



Drivers for outsourcing services	Is currently available at competitive rates in the private sector	Comprises specific project scope/ duration (contractable)	Allows for clearly measurable desired outputs/KPI's	Contingency available	Potential for performance guarantees
	√	√	√	√	√
Drivers against outsourcing services	Loss of Government control	Potentially significant workforce redundancy			

#### Observations – HID

- Revenues are not included in the budget, which restricted our analysis of HID, but they would include the substantial premiums from Future Care and the Health Insurance Plan (HIP).
- HID handles HIP, Future Care, Mutual Reinsurance Fund (MRF), Subsidy Entitlement and Overseas & Diagnostic Imaging.
- This Department currently outsources 60 to 70 percent of its back office functions.

By outsourcing, they have been able to improve the turnaround time in paying claims.

- Total claims forecasted for 2013/14 are \$150.7 million.
- According to the Department's Director, HID is running at a deficit; the Department currently uses capital from the Future Care programme to subsidise HIP and MRF.
- The Director also stated that HIP premiums are too low; as a result, the plan is subsidised by Government. It's felt that adjustments must be made, and that the only way to reduce claims expenditures is to reduce the benefits provided under HIP.

## Observations – GEHI

- GEHI only deals with the processing of claims. All of the front end (premium collection) administration is handled by other staff within the Accountant General. GEHI should be operating as a proper insurance company handling the total functions of the GEHI plan.
- The forecast for 2012/13 is to process \$61.5M of claims. The senior manager stated that GEHI is known as one of the slower payers in the industry.
- There is clearly a need for better controls and efficiencies.

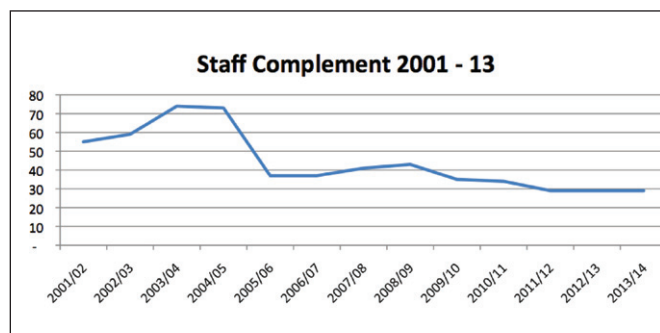
## Recommendations

- GEHI should be merged with HID. As HID already outsource their claims handling, much of GEHI's work would be included, creating substantial cost savings.
- Outsource, or privatise outright, all Government health insurance. There are numerous private sector suppliers who could compete for this business.

## 4. Human Resources: Cabinet Office

### 2013/14 Budget Highlights:

Expenditure Total	\$4,250,000
Revenues Total	\$0
Operating Profit /(Loss)	(\$4,250,000)
Employees	29



Drivers for outsourcing services	Is currently available at competitive rates in the private sector	Comprises specific project scope/ duration (contractable)	Allows for clearly measurable desired outputs/KPI's	Contingency available	Potential for performance guarantees
	√	√	√	√	√
Drivers against outsourcing services	Loss of Government control	Potentially significant workforce redundancy			

## Observations

- The Department size is 23% of the Ministry's total staff of 126. Department operating costs are 25% of the Ministry's operating budget of \$16.9 million. There are 4 staff members in Corporate Administration, 15 in Operational Human Resources, 9 in Training & Development, and 1 Policy Analyst. There are many pockets of other Human Resources services across Government (e.g. Corrections, Education, Public Works, etc.) whose staff do not report to Human Resources.
- The Cabinet Office's key objectives include ensuring that appointments to vacant posts, probation reports and confirmation of appointments to posts, and disciplinary procedures and appeals are carried out in accordance with the Public Service Commission Regulations 2001, Public Service (Delegation of Powers) Regulations 2011 and subsequent amendments, and without political interference. The Cabinet Office also provides a strategic direction of human resource management for the Government of Bermuda, as well as research, development, and policies and procedures review. Overall, it appears that the Department is totally focused on administrative issues as opposed to strategy or policy; indeed, the Director of Human Resources does not participate in meetings of the Civil Service Executive.
- Payroll reporting is handled by Accountant General staff.
- The Human Resources Information Management System (HRIMS) is not fully deployed.

As noted in the Performance section of this report, the performance appraisal process is manual and cumbersome, and performance ratings are not taken seriously.

- Also as noted in the Performance section, the Human Resources function is viewed by a surprisingly large number of Government Departments as bureaucratic and restrictive.

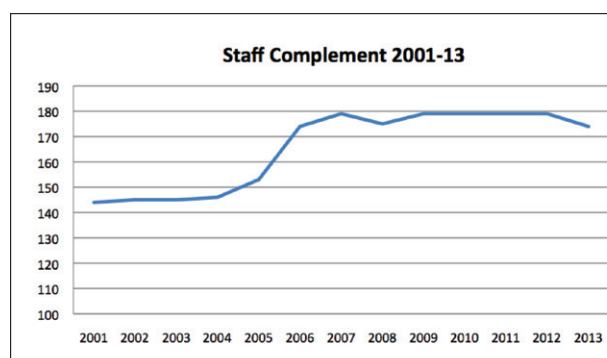
## Recommendations

- As recommended earlier in this report, consolidate all Human Resources functions across Government into one Human Resources Department.
- The Human Resources Department should then be split into two sections – one focused on strategy, policy, performance management, and talent development/succession planning, and the other on administrative services. The former should have responsibility for all such activities across Government and be recognised as a critical function of Government, directly represented at the Civil Service Executive. We do not believe the responsibilities of this section should be privatised or outsourced.
- All administrative functions of the Human Resources function should be centralised in a Personnel Services section, including the payroll function currently residing with the Accountant General. Once this is achieved, we believe that most of these functions can be outsourced to local private sector providers, under the guidance of the Privatisation & Outsourcing Authority.

## 5. Marine & Ports: Ministry of Tourism Development & Transport

### 2013/14 Budget Highlights:

Expenditure Total	\$18,536,000
Revenues Total	\$6,169,000
Operating Profit /(Loss)	(\$12,367,000)
Employees	174



Drivers for outsourcing services	Is currently available at competitive rates in the private sector	Comprises specific project scope/ duration (contractable)	Allows for clearly measurable desired outputs/KPI's	Contingency available	Potential for performance guarantees
		√	√	√	√
Drivers against outsourcing services	Loss of Government control	Potentially significant workforce redundancy			
		X			

### Observations

- The Department's size is 30.5% of the Ministry's total staff of 570. The Department's costs are 19.7% of Ministry operating budget of \$93.7 million.
- The staffing complement of the ferry service accounts for 40% of Marine and Ports. The balance is spread out among the West End, Central and East End departments.
- Key Revenue figures are Boat Moorings (fees generating \$813,000); Service Tugs (\$1.233 million); Pilotage (fees generated \$1.058 million) and Ferry Service (\$1.8 million.)
- There are major maintenance issues with ferries, in particular with fast ferries.
- Issues have been identified with respect to the efficient management of the ferry schedule.
- There is apparently a problem with fare collection, resulting in lost revenues to Government.
- There have been challenges with the union with respect to staff discipline.

### Recommendations

- We recommend that the maintenance of the ferry service, tendering operations for cruise ships, and government-operated ship slips and cradles be outsourced.

## 6. Parks Department: Ministry of Environment & Planning

### 2013/14 Budget Highlights:

Expenditure Total	\$10,537,000
Revenues Total	\$254,000
Operating Profit /(Loss)	(\$10,283,000)
Employees	164



Drivers for outsourcing services	Is currently available at competitive rates in the private sector	Comprises specific project scope/ duration (contractable)	Allows for clearly measurable desired outputs/KPI's	Contingency available	Potential for performance guarantees
	√	√	√	√	√
Drivers against outsourcing services	Loss of Government control	Potentially significant workforce redundancy			
		X			

## Observations

- This Department employs 51% of the Ministry's staff total of 321. Expenses are 38% of the Ministry's total budget of \$27.45 million for 2013/14.
- Outside of the 11 staff assigned to Administration, the remaining staff is assigned to services including Park Rangers, Lifeguards, Government House, Camden, Maintenance, Eastern Parks, Tree Service, Western Parks, School Grounds, Tulo Valley, Botanical Gardens, Railway Trail and Forts & Historical Sites.
- There have been many discussions over the years about privatising or outsourcing services and work within the Parks Department, but there have been only few areas delivered (e.g. trimming and mowing the Railway trail.)
- The Department receives regular requests from various MPs to assist in their constituencies, thereby stretching resources.
- Machinery maintenance is a challenge that negatively affects efficiency and productivity.
- Employees of the Parks Department have presented plans for savings within their Department which have not been acted on. These employees are examples of ambitious and motivated Government workers who should be encouraged to set up their own private business by seeding them with competitively priced Government contracts subject to oversight by the Office of Project Management and Procurement.

## Recommendations

- The Privatisation & Outsourcing Authority should actively pursue outsourcing as well as asset sales opportunities (equipment and machinery) and ensure that contract negotiations are specific, measurable and can be quantified.
- Notwithstanding outsourcing opportunities, there will be a need for Government to continue to provide Rangers and Contract Management.
- An outsourcing mandate creates great opportunities for new or existing business entities to form and bid for landscaping (grass cutting, hedge trimming etc.). Government should consider as a matter of priority encouraging and empowering existing staff for such business formations, thereby creating new entrepreneurs and social equity.
- Tulo Valley Nursery should be outsourced and the “rent” should be the requirement to produce an agreed amount of plant material and seedlings for Government. The agreement should include the ability for Government to purchase competitively priced plant material and seedlings beyond the required rental amount if needed.

## 7. Public Lands & Buildings: Ministry of Works & Engineering

Please see Page 90 for an overview of the budget and staffing complement for this Department, which is responsible for the effective management of all public lands and buildings.

As noted on Page 90, the SAGE Commission believes there are significant opportunities for privatising and monetising the Government assets managed by this Department.

This Department is also responsible for the management, maintenance and repairs of public lands and buildings.

<b>Drivers for outsourcing services</b>	<i>Is currently available at competitive rates in the private sector</i>	<i>Comprises specific project scope/ duration (contractable)</i>	<i>Allows for clearly measurable desired outputs/KPI's</i>	<i>Contingency available</i>	<i>Potential for performance guarantees</i>
	√	√	√	√	√
<b>Drivers against outsourcing services</b>	<i>Loss of Government control</i>	<i>Potentially significant workforce redundancy</i>			
		X			

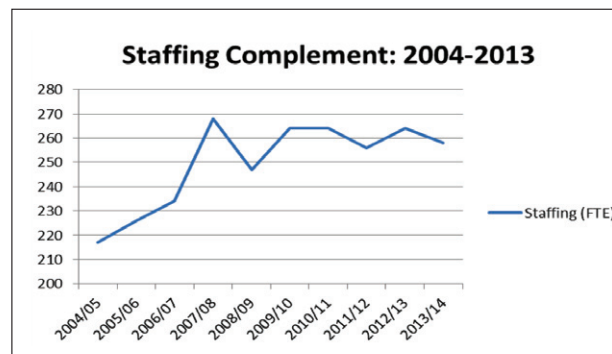
## Recommendations

- We recommend that the management of Government lands and buildings be outsourced.
- We also recommend that the maintenance and repair staff and functions, across Government, be consolidated into one section of the existing structure of Works & Engineering to avoid duplication and to facilitate better coordination of service delivery. Once such consolidation is achieved, we believe there will be opportunities for successful outsourcing, as there is a robust and competitive market for such services in Bermuda.
- The first step is to consolidate. This should be completed within 3 months. The second step is to identify and outsource within 6 months.

## 8. Public Transportation: Ministry Tourism Development & Transport

### 2013/2014 Budget Highlights:

Expenditure Total	\$20,945,000
Revenues Total	\$8,700,000
Operating Profit/(Loss)	(12,245,000)
Employees	258



Drivers for outsourcing services	Is currently available at competitive rates in the private sector	Comprises specific project scope/ duration (contractable)	Allows for clearly measurable desired outputs/KPI's	Contingency available	Potential for performance guarantees
	√	√	√	√	√
Drivers against outsourcing services	Loss of Government control	Potentially significant workforce redundancy			
		X			

## Observations

- The Department of Public Transportation's expenditure accounts for 22% of the Ministry's expenditure. Staffing accounts for 45% of the Ministry's staff (570). Salaries and wages make up 74% of DPT's total expenditure.
- Of the 258 staff, 183 (71%) are bus operators, 50 (20%) are involved in repairs, and 21 (8%) are in a management support or administrative function.
- 50% of revenues come from bus passes, 21% from cash, 11% from ticket sales, and 8% from charters.
- The Department suffers from a lack of strategic and logistical planning.
- Bermuda's bus fleet is an expensive one: buses are custom-built for the Island.
- Because of the customised nature of the fleet, replacement costs for parts are high.
- As a result, operating costs for Bermuda's buses are excessive.
- On the day of the SAGE Commission's interview with the Director (June 20, 2013), 54 out of 112 buses were out of service, leaving 58 buses to meet the demands of the schedule. The Director estimates that 85 buses are needed to satisfy normal scheduling requirements. It was noted that collective bargaining agreement prevents management from:
  - implementing the 'grey schedule' and accompanying work roster
  - performing major maintenance during evenings and nights

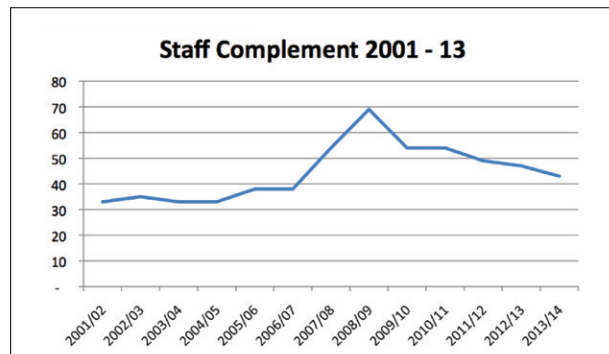
## Recommendations

- The Department of Public Transportation should purchase “off the shelf”, rather than customised, vehicles for its bus fleet.
- Maintenance of the fleet should be outsourced.
- Certain routes, or portions of those routes, should be reviewed for outsourcing.
- Once this Department has been restructured, the Privatisation & Outsourcing Authority should look at outsourcing the rest of the Department’s operations.

## 9. Transport Control Department: Ministry of Tourism Development & Transport

### 2013/14 Budget Highlights:

Expenditure Total	\$6,332,000
Revenues Total	\$28,217,00
Operating Profit /(Loss)	\$21,885,000
Employees	41



Drivers for outsourcing services	Is currently available at competitive rates in the private sector	Comprises specific project scope/ duration (contractable)	Allows for clearly measurable desired outputs/KPI's	Contingency available	Potential for performance guarantees
		√	√	√	√
Drivers against outsourcing services	Loss of Government control	Potentially significant workforce redundancy			

## Observations

- TCD's contribution to the Consolidated Fund has been positive for the last three years with a projected increase of 13% over last year's contribution of \$20,621,000.
- The largest source of individual revenue is private car licensing projected at \$19,468,000 followed by Commercial Vehicles and Motor Cycles at \$3,622,000 and \$1,452,000.
- TCD's staff makes up 7% of the Ministry's total staff of 570. Of the 43 total staff, 8 are attributed to Administration. The Registration section of TCD has the largest number of employees at 15, followed by Traffic Control with 10.
- It should be noted that while Traffic Control reports into TCD, any revenue associated with tickets for traffic violations is captured in the revenue for Magistrates Court.
- The largest expense for this Department is wages/salaries, which are 45% of the expenditure total or \$2,863,000. The next single largest expense is Professional Services expense of \$2,291,000, which includes the cost of the Bermuda Emissions contract.

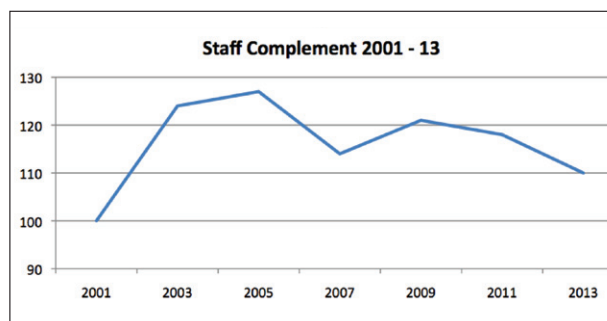
## Recommendations

- Eliminate testing of vehicles by TCD and outsource it to licensed garages who would charge their customers for the testing and pay Government a fee to be licensed to do so. This has been done in the US and UK. Government would still receive the substantial fees from vehicle licensing, but the garages would compete for the testing revenues. This arrangement also delivers substantially more convenience to the consumer. This will also save the government \$2.3 million on the emissions contract.
- We believe there are 3 areas of TCD that must be reviewed to ensure that, legislatively, functionally and strategically, they still are achieving objectives as originally outlined, without adding either additional expenditure or unnecessary administration. These areas are: the Truck Advisory Committee, the Bermuda Road Safety Council, and the Public Service Vehicle License Board.
- There are potential revenue opportunities that could further increase the positive contribution that TCD provides to the Consolidated Fund, including, but not limited to:
  1. creating a vehicle impound yard
  2. selling access to the vehicle register
  3. electronically tracking issued traffic tickets with a view to either blocking or withholding vehicle registration to improve collection of other Government receivables.

## 10. Youth, Sport & Recreation: Ministry of Community & Cultural Development

### 2013/14 Budget Highlights:

Expenditure Total	\$11,662,000
Revenues Total	\$711,000
Operating Profit/(Loss)	(\$10,951,000)
Employees	110



Drivers for outsourcing services	Is currently available at competitive rates in the private sector	Comprises specific project scope/ duration (contractable)	Allows for clearly measurable desired outputs/KPI's	Contingency available	Potential for performance guarantees
	√	√	√	√	√
Drivers against outsourcing services	Loss of Government control	Potentially significant workforce redundancy			
		X			

## Observations

- The Youth, Sport and Recreation (YSR) Department, with an operations budget of \$11.662 million, plays an important part in youth development which can translate to long term benefits for the entire community.
- Revenues from programmes total \$711,000 with contributions from After School Vouchers (\$440,000), Registration (\$177,000), Court Fees (\$39,000), Camping Fees (\$32,000) and Facilities (\$14,000) making up the bulk of the revenue.
- Fulltime Ministry staff total 110 and are illustrated in the table below:

Admin & Sports	10
Facilities Management	10
Youth Development	4
Community Centres	31
Camping	11
School Age Activities	12
After School Programmes	32
<b>TOTAL</b>	<b>110</b>

- Staff salaries, wages and benefits total \$5.7 million, or 49% of the Department's total expenses.
- Professional Services total \$146,000 which does indicate some outsourcing of labour/programmes.
- Grants & Contributions total \$4.2 million, or 35% of total expenses.

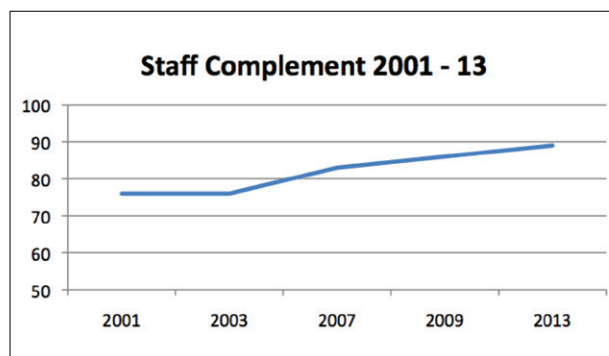
## Recommendations

- The programmes and services provided by this Department contribute to the community's well being. However, given the size of this Department and the availability of services in the private sector, the Privatisation & Outsourcing Authority should consider outsourcing programmes and services provided by this Department.
- Sport Facilities should likewise be considered for outsourcing where the operator can build upon existing services and programmes for the benefit of the community and with the intention of providing programmes and services more cost effectively.

## 11. Vehicle & Equipment Operations & Maintenance: Ministry of Works & Engineering

### 2013/14 Budget Highlights:

Expenditure Total	\$5,609,000
Revenues Total	\$0
Operating Profit /(Loss)	(\$5,609,000)
Employees	89



Drivers for outsourcing services	Is currently available at competitive rates in the private sector	Comprises specific project scope/ duration (contractable)	Allows for clearly measurable desired outputs/KPI's	Contingency available	Potential for performance guarantees
	√	√	√	√	√
Drivers against outsourcing services	Loss of Government control	Potentially significant workforce redundancy			
		X			

## Observations

- The Vehicle & Equipment Operations and Vehicle & Equipment Maintenance Departments are included in the Quarry Transport section within the Works & Engineering Division of Public Works.
- These Departments employ 16% of the Ministry's staff total of 571. Expenses are 9% of Ministry operating costs which total \$61.4 million.
- The Department objectives are to manage Government's vehicle fleet and equipment leasing, mechanical maintenance and quarry operations.
- Interviews conducted with other Departments indicate the maintenance and repair of Government vehicles and equipment is not efficient, leading to productivity lapses in these other areas.

## Recommendations

- There is sufficient evidence to conclude that Government should consider consolidating and outsourcing their vehicle and equipment management and maintenance. There are

ample private sector service providers who are capable of improving efficiency and lowering costs and who would compete for this business, possibly absorbing many of the staff currently working in Works & Engineering.

## **Duplicated Functions**

There are a number of functions performed in multiple Departments of Government: Debt Collection (Accountant General), Accounting Services (Accountant General), IT Services (Information Technology Office), and Personnel Administration (Human Resources).

Others are replicated as required, such as cleaning services, maintenance, security, mechanical services, and landscaping.

The former are extensions of a defined centralised responsibility, but generally operate autonomously.

## **Recommendation**

Cabinet should direct Management Consultancy Services to conduct a complete review of all decentralised common functions across Government to combine them wherever possible under centralised management to ensure coordinated delivery, strong budget control, and performance accountability.

Once this is accomplished, the Privatisation & Outsourcing Authority should review each function to determine whether it could be more efficiently performed in the private sector.

## PENSIONS – Securing Our Future

The SAGE Commission reviewed Government's three pension schemes:

- Bermuda Contributory Pension (CPF) – (Social Insurance)
- Public Services Superannuation Fund (PSSF)
- Ministers and Members of the Legislature Pension Fund (MMLPF)

Details of each scheme, the legislative acts for the schemes, the actuarial valuation reports, and the results from alternative scenarios for the PSSF, and MMLPF, which the Commission reviewed can be found in the Pension section of the Appendix which is available to view on the flash drive included with this report.

### Sustainability

Retiring with an appropriate pension is an important part of maintaining a reasonable lifestyle during retirement. Government's 3 pension schemes have, up to now, promised a pension benefit at a particular level at a particular age.

However, if continued in their current form, these 3 schemes are underfunded on a market value basis <sup>1</sup> by:

SCHEME – VALUATION DATE	LIABILITIES	ASSETS	UNDERFUNDED
CPF – August 1st, 2011	\$3,604m	\$1,538m	\$2,066m
PSSF – March 31st, 2012	\$1,475m	\$502m	\$973m
MMLPF – March 31st, 2013	\$35m	\$12m	\$23m
<b>TOTALS</b>	<b>\$5,114m</b>	<b>\$2,052m</b>	<b>\$3,062m</b>

NB: CPF numbers assume benefits increase at the rate of CPI, and no more contributions. All underfunded amounts are stated as at the latest actuarial valuation date, which for the CPF, and MMLPF differ from the SAGE Commission interim report. "m"=millions

While the CPF does not have any legitimate access to the Government's Consolidated Fund, clearly it is socially desirable to ensure the continuation of benefits for the scheme. However, both the PSSF and MMLPF have ultimate recourse to Government through the Consolidated Fund to meet any unfunded obligations.

Government is running an annual current account deficit of about \$330 million, and is budgeted to have an external debt obligation of \$1.75bn (net of the Sinking Fund) by March 31, 2014. This budgeted amount will now change to approximately \$2.2bn by March 31, 2014, as a result of recent borrowings in excess of the amount shown in the 2014 budget. If continued in their current form, due to the low funding levels, all of the schemes will run out of funds in the next 35 years. The Bermuda Government is not expected to have surplus funds, particularly of the magnitude of \$3bn in order to fully fund the above shortfall in the foreseeable future.

<sup>1</sup> These amounts differ from the SAGE interim report, and the consolidated accounts as they are either from an updated actuarial review or in the case of the PSSF are on a pure market value basis

As a consequence of the foregoing, the Commission approached its purpose with the following guidelines:

1. The overall costs must be within an amount that the Government is expected to be able to afford. For each of the schemes, there is a differing interpretation as to how that may be achieved:
  - a. The CPF is Bermuda's social insurance scheme, providing some income to all residents during their retirement. It is also the pension of last resort for residents who have no other means of income at retirement. As a social requirement, the scheme should be made sustainable without additional funding from Government. Benefit levels need to be maintained, and, if possible, have the ability to be increased commensurate with the Consumer Price Index (CPI). Bermuda is not alone in the problems facing the social insurance schemes. Any changes should as far as possible be consistent with international practice for social insurance schemes.
  - b. In the PSSF scheme, Government has a commitment for a matching contribution of 8%, (9.5% for special groups (Fire, Police and Prison Staff)). The annual pension charges <sup>2</sup> to the Consolidated Fund have exceeded that amount even though the amount adding to the pension fund assets has only been the matching contribution <sup>3</sup>. We approached our review of this scheme on the assumption that a large injection of funds from Government is not possible in the foreseeable future. Consequently, the Commission evaluated the ability to make the scheme sustainable with the matching contributions only.
  - c. In the MMLPF scheme, Ministers, and Members of Parliament have a special form of pension scheme where the costs are higher than for the PSSF participants, and benefits accrue faster. Although there are some distinct differences between a Minister or Member of Parliament and a Government employee, we approached our review with the understanding that the costs per participant and benefits should be more closely aligned to the PSSF than they are now.
2. To the extent possible to achieve the financial goal of sustainability, changes would be needed to the benefit structure of the PSSF scheme. In assessing what changes would be appropriate, the Commission approached its review with making such changes consistent, to the greatest extent possible, with benefit provisions within the private sector.
3. As the trend in the private sector has been a significant shift away from Defined Benefit (DB) to Defined Contribution (DC) schemes, the possibility of shifting the PSSF, and MMLPF to DC schemes needed to be given serious analysis and consideration.

This report includes many charts to illustrate the effects of the current situation and suggested changes. These charts have, as far as possible, the same scale of years to approximately 2050; nevertheless, it is recommended that the period included in each chart be carefully noted.

<sup>2</sup> For the past 2 years, the charges to the Consolidated Fund for the PSSF and MMLPF have been \$119 million, and \$121 million for years ending 2011, and 2012. Also for 2013, the amount is expected to be \$126 million.

<sup>3</sup> For a number of years the amount added to the PSSF assets included an additional \$500,000. For the year ending March 31, 2013 Government enacted an amendment to not add the matching contribution, though the PSSF fund included the amount as a receivable.

## Bermuda Contributory Pension Fund (CPF)

This scheme is Bermuda's social pension scheme. It is intended to ensure that all residents have a minimum income after retirement. The National Pension scheme was started some 13 years ago, and that scheme committed all employers to establish a minimum pension scheme for their employees. Consequently, in the future when participants have been in the National Pension scheme for all their working life, the retirement income for many residents will include an amount from the National Pension scheme. At that time, the CPF scheme will be the income of last resort for a smaller percentage of residents.

To qualify for a contributory pension, a person needs to be 65 years or older and have made an average of 25 weekly contributions a year from age 18 (age 21 in some cases) to age 65. The amount of benefit is dependent upon the total contributions that have been paid. The scheme does not have a legal commitment of financial support from the Government's Consolidated Fund, and therefore needs to be operated on a sustainable, stand-alone basis.

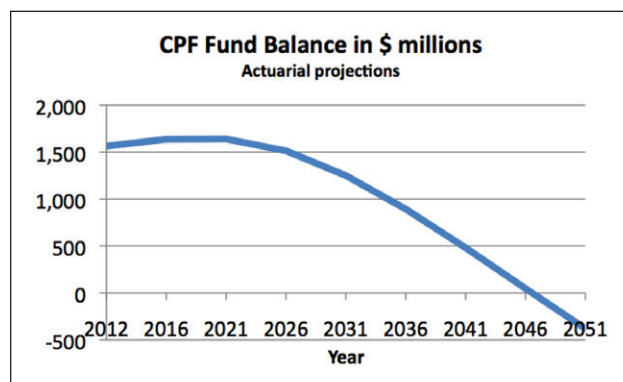
If no contributions or contributions less than the minimum have been paid, then a person may qualify for a non-contributory retirement benefit. The person needs to be a Bermudian, and have been ordinarily resident for not less than 10 years during the 20 year period prior to making an application for the benefit.

The actuarial review that is done every 3 years analyses the expected demographics of Bermuda's population and projects the needed contribution rates to make the scheme sustainable. As there is no recourse to the Consolidated Fund, future contributions should be set at such a level that, together with the current assets of \$1.538 bn, future benefit payments can be made.

For a full understanding of the CPF scheme, please refer to the Contributory Pensions Act 1970.

### Findings:

1. The liabilities of the scheme are \$3.604 bn as at August 1, 2011. This assumes no future contributions are made, and benefits are increased at a rate to match CPI changes. The assets are \$1.538 bn, so the assets are \$2.066 bn less than the amount needed to meet the liabilities using the actuarial assumptions. These assumptions include future age demographics<sup>4</sup>, long-term real rate of return on investments, the contribution rate, benefit increases, administrative expense costs, type of benefit, and retirement age.

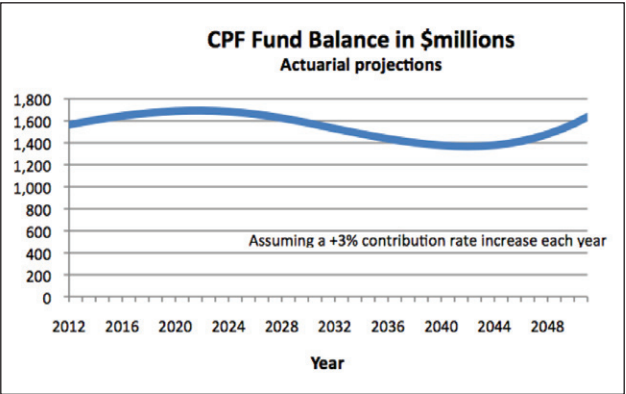
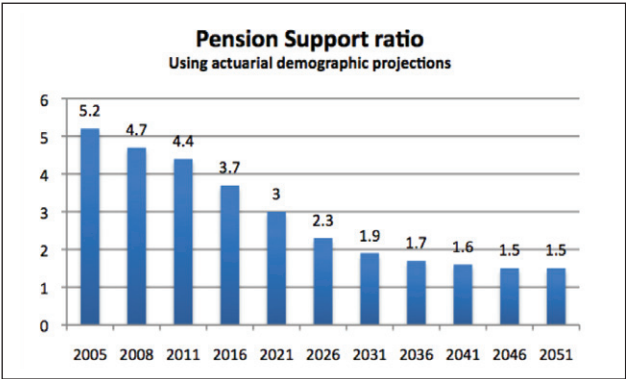


2. Government has a current commitment to increase contributions by 1.75% every year above any benefit increase rate. With this increased contribution rate, the current actuarial review as at August 1, 2011, projects that the scheme will run out of funds by 2047. This assumes that investment performance is 3.5% above CPI. Even with improved investment performance of 4% above CPI, a +1.75% contribution increase level will not make the fund sustainable. The actuaries estimate a contribution level of +2.9% above the benefit increase level would make the scheme

<sup>4</sup> The evaluation of age demographics includes assumptions of births, and mortality rates by age.

survive for the foreseeable future, under the current long-term assumptions.

- 3. The actuarial projections assume a return on investments in terms of a rate of return above price inflation increases (CPI). The assumption is a return of 3.5% above CPI. Over the past 10 years, the rates of return have exceeded the underlying assumption achieving a pure return of 6.4% in the last 3 years, which is 4.2% above CPI. Should the long-term investment return fall below the underlying assumption, or the benefits increase more than CPI, then contribution rates would need to be increased at a greater rate.
- 4. Bermuda demographic projections by the actuaries for the scheme show that the ratio of the working population to pensioners (ages 65 and over) is estimated to decrease from 5.2 in 2005 to 1.5 by 2051<sup>5</sup>. Consequently, the number of contributors is reducing, while the number of beneficiaries is increasing. This decline is more rapid than experienced in OECD countries where the pension support ratio gets close to 2.0 by 2050. The conclusion is that the CPF will require the working population to pay increasing contributions to provide for the retirement costs of pensioners.
- 5. The lifespan of a 65 year old has been continuously increasing. In OECD countries, life expectancy after retirement is shown to have grown from 13.3 years to 17.4 years for males, and 17.0 years to 22.6 years for females from 1958 to 2002. By 2050, the life expectancy after retirement is projected to be 19.6 years for males, and 23.7 years for females.
- 6. Retirement age in social schemes worldwide is under scrutiny, and many countries are increasing the retirement age to 68 and above. This change in retirement age is usually done gradually over a number of years.



Recommendations:

- 1. The contribution rate should increase faster than the current rate of +1.75%. The contribution rate should at least be sufficient to achieve sustainability. The SAGE Commission recommends a rate of +3% (i.e. increase contributions at a rate of 3% above any benefit increase rate) for a number of years, with the intention of slowly decreasing the underfunded proportion. Should investment returns exceed expectations, then the continual increase of +3% may be reduced. An increase rate of +3% for a person earning \$50,000 (which is expected to increase with inflation), would mean that the starting cost for the Contributory Pension scheme is 3.3% of their earnings, and in 20 years will become 6.0% of their earnings if there are no other changes.

<sup>5</sup> Using a projection from the actuaries for the scheme. The Bermuda Government has produced demographic projections, which are now over 7 years old and were based upon the 2000 census. The Government statistical projections (through 2030) show a decline in the pension support ratio, but less of a decline than the above.

2. A specific strategy should be established to increase the retirement age for the scheme to 68 consistent with other OECD countries. The increased contribution rate mentioned above will become more onerous over a number of years, so a change to a retirement age of 68 should be started as soon as possible. The change should be phased in over 15 years. Also, because of the large underfunded amount, it is expected that after that time, an additional change to the retirement age to 70 will need to be phased in. If the retirement age is not increased, then the contribution rate at +3% will become extremely onerous to the working population, and particularly to those with lower incomes.

## Public Services Superannuation Fund (PSSF)

The PSSF is the pension scheme that applies to Government employees, and quangos. To see a description of the scheme, please refer to the handbook and the Public Service Superannuation Act 1981 which can be found in the Appendix available to view on the flash drive included with this report.

This pension scheme is a Defined Benefit scheme and its main benefit provisions are:

- Retirement age is at age 60, except for Police Fire, and Prison workers, where it is age 55. For Judges it is 65. There are provisions for earlier retirement based upon years of service (police and fire 25 years, prison 21 years). There are no early retirement adjustments.
- Pension accrual is 1/800th per month of service, which translates to a 1.5% accrual per year of service. For Judges, the accrual rate is 1/600th or 1.67%.
- The amount of pension is determined as 12 times the final month's salary times the service accrual, with a maximum of 40 years of service counting. So the maximum pension is 60% of the final salary.
- All pensions in payment are entitled to Cost of Living Adjustments (COLA). The cost of living is reviewed every 2 years, and an adjustment is made provided the cost of living has risen by at least 0.5%.
- Widows at the time of the death of the retiree receive 60% of the pension entitlement, and if there are dependents, the spouse receives 50%, and dependents share 50%. If there is no surviving spouse, the dependents share 60%, and if there is only one dependent, and no spouse, then the dependent receives 40%. Dependent payments continue until age 18, or 25 if enrolled in an approved full-time educational institution. For all the spouse and dependent provisions, please refer to the handbook and the above referenced Act.
- Contributions are 8%, except for Police, Fire and Prison workers where it is 9.5%. Government has committed to add a matching contribution to the fund.
- Vesting is 8 years.
- A hardship provision is included where a vested participant can withdraw up to 25% of the participant's contributions with 4% interest. This provision is well defined as to the circumstances where such a withdrawal is permitted, requiring confirmed potential to lose living accommodation, or need for tertiary education fees for an enrolled dependent.
- At retirement, participants can commute up to 25% of the pension. The factor is 11.5 times the amount of the pension commuted.

The primary actuarial assumptions for valuation include mortality, long-term rate of return on the investments, salary inflation, and COLA adjustments. Should the actual experience differ from these assumptions, the actual liability may be greater than that estimated by the actuaries.

The special groups (Fire, Police, and Prison staff) receive more advantageous pension benefits, and more financial value from the scheme than other participants. Some recommendations were made below in respect of these groups to retain consistency to the changes recommended for other groups within the PSSF.

## Projection Model:

The Commission was given full access to the actuaries for the scheme, and made use of a model that the actuaries had prepared to review the survivability and sustainability of the scheme over the next 75 years. The Commission in conjunction with the actuaries determined the interpretation of “sustainability” as the ability to survive 75 years with a positive balance remaining, even if that balance was \$1 and there were participants and retirees still in the scheme.

This is an extremely long period of time, and it is expected that Government would have the ability to make appropriate changes during that time based upon the actual results of the scheme together with Government’s fiscal situation.

What is most important to examine in the projections, is the percentage that the scheme is funded at points along the projection period. If the percentage becomes large enough, then at that time, there may be a greater ability to either inject additional funds, or make changes that will result in a permanent sustainable scheme.

In the review of the actuaries’ model, the Commission felt that the underlying assumptions of mortality, long-term return of the assets, salary inflation, new entrants (i.e. new employees), tended to be such that a more likely change in actual experience would result in an increase to the deficit rather than a benefit. Therefore, two assumptions were modified to include some expectation of likely changes in the future:

- Mortality was modified to include an additional margin for longevity by making the mortality rates 90% (per the actuaries’ suggestion) of the mortality table used in the 2012 valuation. Actuaries have struggled with longevity issues, and while there are techniques to make adjustments to reflect longevity improvements, the adjustments frequently are understated, resulting in a penalty to the liabilities. The Commission did not want to be overly conservative, but wanted to reduce the effect of future penalties.
- The actuaries used the current size of Government as a guide to the size in the future. In view of the SAGE Commission’s work, it was assumed that the size would likely reduce somewhat over time. So an additional assumption was evaluated of 500 less staff over 10 years. While this may be less than actual experience, it, nevertheless, reduces the amount of any penalty as a result of the changes in size of Government.

## Findings:

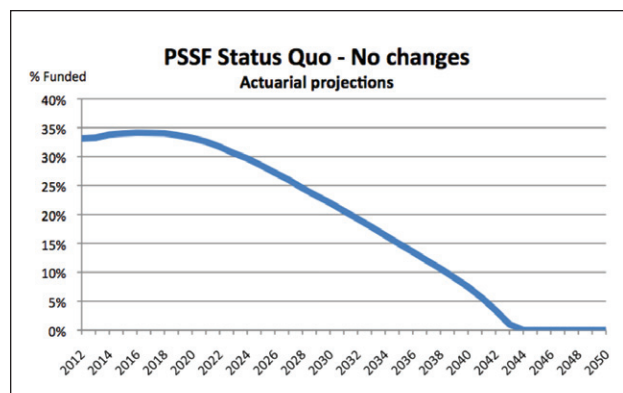
The major finding is that without immediate action, the PSSF will not be able to meet its commitments. The deficit is at a level that clearly Government cannot afford to make up the difference.

The urgency is immediate, as any delay results in the deficit continually growing at an untenable rate:

1. The PSSF is unsustainable in its current form. The scheme is underfunded by \$973 million at March 31, 2012. Continued in its current form it is expected to run out of funds by 2043.

2. The long-term asset return assumption is 6.5%. The actuaries at each valuation assume that the entire liability amount will increase at 6.5% per annum over the lifetime of the scheme. Therefore with a deficit of \$973 million, the actuarial assumption is that 6.5% interest will compound on this amount.

3. The PSSF provides participants with benefits that are better than those compared to private sector DB schemes in the US, UK, and Canada. The trend in the private sector over the past 15 years is that new pension schemes are usually DC. In Canada, the number of active participants of pension schemes that were DB versus DC in the private sector reduced from 76% in 2000 to 52% in 2010.



The comparative of the PSSF provisions against the private sector DB schemes are:

- a. The employee's final month's salary is used to determine the pension benefits in respect of his entire service period. No DB scheme in the private sector in Canada used earnings in the final year of service for pension benefit calculation. Most private sector DB schemes use an average of the final 5 years of salary, or career average salary, or average of final 3 years of salary.
- b. Retirement age in the PSSF is 60 for most participants, and 55 for Police, Fire, and Prison staff. The Judges have a 65 retirement age. When an early retirement is granted in the PSSF, there is no reduction for early payment of the pension. Most DB schemes in the private sector have a retirement age of 65, and the amount of pension is reduced if retirement is earlier.
- c. The PSSF has a provision established in the Pension (Increase) Act of 1972 to review the cost of living every 2 years, and provided the cost of living has increased by 0.5% or more (i.e. to avoid making small adjustments), a cost of living adjustment must be made to pensions in payment. In the private sector, 88% of DB schemes do not provide any cost of living adjustments.
- d. The PSSF has an annual accrual rate of 1.5%. This is reasonably consistent with the private sector DB schemes. Only 18% of schemes have an accrual rate of less than 1.5%.
- e. The PSSF automatically provides for a spouse pension of 60% upon the death of the retiree. Private sector practice is that the pension commitment at retirement is for a single pension to the retiree, and if the retiree wishes to have the pension continue to the current spouse, then a cost is associated with that, and an election has to be made at retirement in respect of the current spouse. In the PSSF scheme, the spouse can be a subsequent spouse. In private sector DB schemes, the spouse option applies to the current spouse. Furthermore, in private sector schemes, there are usually no specific provisions for dependents, as generally retirees are not expected to have dependents beyond the date of death of the last survivor. In the PSSF, dependents can continue to get pension benefits after the death of the retiree.

4. The PSSF actuarial assumption in determining the amount of liability in the pension fund uses a long-term return of 6.5%. The assets are managed by the Public Funds Investment Committee (PFIC). The PFIC has placed the assets with external managers using an asset allocation strategy designed to achieve a long-term return of 6.5% or more, net of expenses. If this rate is not achieved, then the liabilities will increase. A 1% decrease in future long-term rate of return on the investments translates to an increase in liability and additional deficit of \$216 million based on the March 31st, 2012 data. As part of their work, the actuaries evaluate the long-term interest rate assumption by comparing the asset strategy with the long-term expected return of the components of the portfolio. This can be found within the PSSF actuarial report.
5. Participants contribute 8% of salary (9.5% for the Police, Fire, and Prison staff), with a matching contribution from Government. The participant contribution rate, and the matching contribution by Government is greater than the typical level of contributions made by private sector DB schemes.
6. As indicated above, the demographics indicate that people are living longer. Therefore, the cost of a pension would increase because payments will be paid out longer. Actuarial mortality assumptions include margins for improved longevity; however, history has shown that these have never been enough. Subsequent adjustments to the mortality table to reflect additional longevity will always result in a penalty, and this penalty may be material to the liabilities of the scheme.

## PSSF Options

Two options are presented below. Because the PSSF scheme is 34% funded, the options are limited; changes need to be made sooner rather than later as further delay will result in greater costs or harsher penalties to the participants and retirees.

Apart from COLA, no other changes have been made to pensions in payment, and it was assumed that such changes cannot be made; even though these past participants are getting value from the fund of an amount greater than the portion of assets that are or were available at the time they retired.

The Commission has reviewed a substantial set of alternatives in conjunction with the actuaries. The Commission believes that one of these options should be implemented. Furthermore, the benefit changes in these options are essential in order to reduce the cost.

If the recommendations of the benefit changes are not implemented in their complete form, then the future costs to Government are expected to become untenable, and will likely result in retirees, participants, and future participants losing a substantial portion of their retirement income.

Should the long-term rate of return on the investments diminish, or the mortality assumptions be adjusted meaningfully, or for Option 1, the staffing levels reduce substantially; the scheme may not be sustainable.

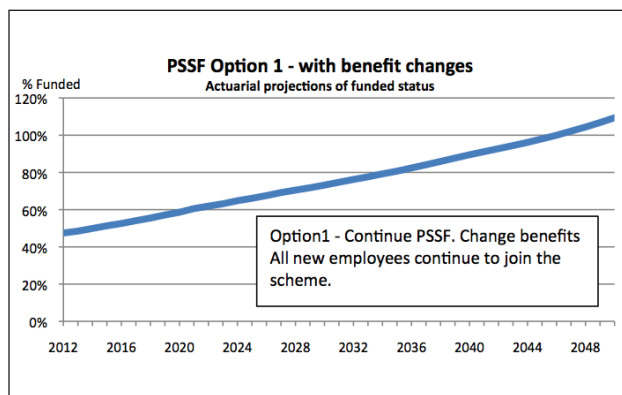
Some of the Commission's recommendations are made on a "phased in" basis. Nevertheless, the recommended changes will affect all participants, however, those participants at or near retirement will have the least impact to their estimated pension at retirement.

The Commission did not make an extensive evaluation of the special groups (Fire, Police, and Prison staff), or for the Judges, or review all the provisions for the teachers. The Fire, Police, and Prison staff are receiving more advantageous pension benefits, and more financial value from the scheme.

## Option 1 – Continue DB with changes

Option 1 is based upon making immediate changes to the scheme, which are consistent with private sector practice. Contribution levels remain unchanged for both the participant, and Government's matching amount. The changes that need to be made are:

- a. Change the pension salary calculation to a Final 5 years' salary. This means the last 5 years of salary prior to retirement are used for the calculation. The Commission recommends this change to take place in a graduated manner over a 4 year period, adding additional salary to the average. The evaluations of the impact of this change taking place over a graduated period was not included in the actuarial evaluations,



so the adjusted underfunded amount is understated. The Commission considered the graduated change as important to the participants, and did not believe the amount was sufficiently material to impact the conclusions.

- b. The normal retirement age (for the non-special groups) should be changed from 60 to 65 by graduating in "early retirement penalty factors" each year over a period of 10 years. The early retirement factors are actuarially determined to be a close approximation to the difference in value for receiving pension benefits earlier than at the scheme's normal retirement age. At the end of the 10 years, the following early retirement reduction factors should be applied to all (except only Fire, Police, and Prison staff) retirees below the normal retirement age:

RETIREMENT AGE	EARLY RETIREMENT REDUCTION FACTOR
64	7.8%
63	15%
62	21.5%
61	27.5%
60	33%

- c. For the special groups (Police, Fire, and Prison), the retirement age should be changed from 55 to 60, in a similar manner to “b” above, with the following early retirement reduction factors applying to any retirement below the retirement age <sup>6</sup>:

RETIREMENT AGE	EARLY RETIREMENT REDUCTION FACTOR
59	7.5%
58	14.4%
57	20.7%
56	26.5%
55	31.8%

- d. No further COLA increases should be given to current or future pensions in payment. The vast majority of participants in private sector schemes do not receive COLA <sup>7</sup>.
- e. The automatic inclusion of benefits for a spouse, or dependent children, should not be provided without a reduction in the overall amount of the pension. In the private sector, this provision (referred to as widow's pension) is an option selected at retirement, and a suitable reduction is made to the amount of pension. The reason for the reduction being needed is that a participant without a spouse is collecting less value than a participant with a spouse if there was no reduction. There is a cost to the scheme for the spouse option, and that needs to be borne by the participant, and not by the other participants in the fund. The Commission recommends (in conjunction with actuarial advice) that a participant making such an election should get a pension that is reduced by 10% (before any reduction for early retirement). Furthermore, this election, if made, should apply to the current spouse only.
- f. Dependent children are not an issue addressed in private sector schemes. The frequency that a retiree will have dependent children after they and their spouse are deceased would be very rare. Nevertheless, the Commission recommends that Government review the dependent children provisions and that a charge be made to future retirees for this option, so as not to economically penalise other participants in the scheme.
- g. At retirement, a participant has an option to commute up to 25% of the amount of the pension using a factor of 11.5. In view of the changes in (a) to (f) above, and in conjunction with the actuaries' advice, the Commission recommends that this factor be modified to 10.

Applying (a) to (g) above, the actuarial projections estimate that the PSSF scheme is expected to achieve a 100% funding ratio after 35 years. Obviously if the fund reaches a funded ratio of 100%, a different strategy will be employed going forward. While on the one hand, this may appear that the result is more than sustainable, and actually increases the fund beyond 100%, it is important not to assume that this will proceed as planned. This option makes various assumptions, and like many other pension schemes have discovered, the modification to any of the assumptions is more often a penalty. For instance:

<sup>6</sup> With the exception of a retirement due to disability

<sup>7</sup> This change will require repealing the Pension (Increase) Act 1972. Furthermore, the Public Service Superannuation Act 1981 where there are references to this specific Act, or repealed legislation.

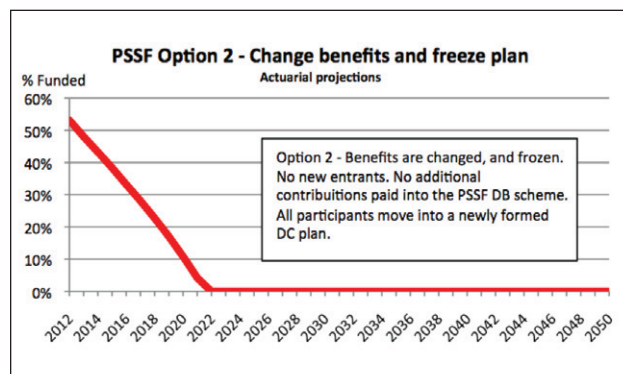
1. The projection assumes Government remains in its present form, and diminishes by only 500 staff over 10 years. If there are less staff than the assumptions, sustainability will either take longer, or may not be achieved.
2. The long-term rate of return on the investments is assumed to be 6.5%. Recent news about pension schemes in the US have highlighted the impact of assuming a long-term return higher than that which is achieved. For the PSSF, a 1% reduction in the long-term return, results in an additional penalty of about \$216 million.
3. Mortality rates were adjusted in the preparation of this option. However, there is the possibility that pensioners will live longer than the assumptions, and consequently result in increasing the cost for each current and future retiree.
4. The graduation to the final 5 years average salary was not included in the projections, and is considered to not have a material affect on the conclusions. It could affect the conclusions if a larger than anticipated number of participants retire within the first 4 years.
5. Government may not have the funds in a future year to add the matching contribution to the PSSF assets.

This option is only a part of the strategy, which is being considered here. The intention is to ultimately move the scheme from a DB to a DC type scheme, and if this Option 1 is implemented, then at each actuarial review, the strategy to transition to a DC scheme should be evaluated.

## ***Option 2 – DB to DC***

Option 2 considers making an immediate set of changes to transit the PSSF scheme to a DC scheme. The Commission in conjunction with the actuaries for the scheme, examined the effect of freezing the PSSF scheme with modified benefits as in Option 1 above, and then establishing a new DC scheme as follows:

- a. There would be no new entrants into the PSSF Defined Benefit scheme.
- b. Salary for the pension calculation would be the salary at the freeze date.
- c. Current participants would be entitled to the current accrued benefits but modified in accordance with (b) through (g) in Option 1 above. There will be no future service accruals as all participants are included in the DC scheme below.
- d. All participants that have not vested at the freeze date will vest their participation in the DB scheme after the end of their 8 year service vesting period. This means that a participant with one year's service would receive a pension at retirement age for that one year of service provided they have completed 8 years of service (Seven years of which will be while they are participants of the DC scheme.)
- e. A DC scheme is established for all PSSF participants:



- I. The participant contribution rate should be 5%, with a Government matching contribution of 5%. This is consistent with the National Pension scheme guidelines, and private sector practice. An option could be provided for participants to contribute a greater amount, but with no matching component from Government.
- II. Vesting period is 2 years. This is consistent with Bermuda private sector practice.
- III. Participants have a choice of investments, with guidelines established as to the appropriate investment strategy for a person of their age with the time left to retirement.

After making these changes, the fund has a remaining deficit of approximately \$424 million. Therefore, either this amount is added to the assets, or annually Government add at least \$30 million to the PSSF frozen assets for approximately 30 years to ensure sustainability of the fund. If one of these is not done the fund runs out in 2022 (see graph on page 125).

In addition Government will need to add the 5% matching contribution to the DC scheme. Using the contribution costs in 2013, the 5% matching cost would be \$21 million. Compared to the 2013 matching contribution costs of \$34 million, Government's annual cost going forward after making this change using 2013 numbers, would be \$51 million (\$30 million plus \$21 million) though reducing substantially after 30 years) under Option 2.

These amounts may reduce if the long-term rate of return on the investments exceeds 6.5%, or the experience is better than the actuarial assumptions used in the model.

## Recommendations:

The Commission recommends that Government:

1. Initiate Option 1 as soon as practically possible. This should apply to all participants in the scheme. This option creates an increasing funding level. At each actuarial review an evaluation should be done of the costs shifting the pension scheme from DB to DC.
2. Develop a set of late retirement factors in preparation for Government permitting employees to continue working past age 65. These factors will increase the pension amount if commenced after age 65.
3. Adjust existing retirees spouse and dependent pension provisions to only apply to their current spouse and dependents.
4. Assess a charge for any early retirement or redundancy package, which is a penalty to the pension scheme compared with the underlying assumptions for the recommendation here. Government should add this penalty amount to the PSSF assets. As the PSSF is currently only funded at a level of 34% of the liabilities, there is no additional funding beyond the assumptions underlying Option 1.
5. In the event of privatisation, or cessation of employment after vesting, the assets should remain in the fund, and the pension amount frozen. Furthermore, should a number of employees be transferred out of Government due to privatisation, assess a charge to be added to the pension assets in respect of the change in the underlying assumptions of new entrants into the plan from that department.
6. Review provisions for the special groups (Fire, Police, and Prison staff). There is no meaningful comparative in the private sector, and in the public sector, these groups receive special treatment

and allowance due to their line of work, the benefit to the community, and the risks involved. However, in view of the current underfunded situation of the scheme, any evaluation should include an assessment of the additional employee costs for the benefits provided. By setting a standard in the employee costs, then the benefits can be reviewed and, if necessary, adjusted accordingly. Furthermore, the practice of a variable cost depending upon a participant's married status, or amount of service, is unfairly discriminatory, and should as far as possible be eliminated.

7. Review provisions for judges, and teacher and hospital staff pensions, in line with the standard as defined in item 6 above: i.e. by setting a standard for the additional employee costs for the benefits provided, and not to discriminate between participants based upon married status, or amount of service.
8. Review the disability pension provisions to bring these more in line with private sector practice. A person, who is wholly disabled, may receive a pension sooner than the normal retirement age with less of an early retirement reduction.

## **Ministers and Members of the Legislature Pension Fund (MMLPF)**

The MMLPF is a pension scheme for Ministers, and Members of the Legislature. These are elected and appointed members, some of whom hold positions within Government. Sometime prior to the start date of this scheme, Parliamentarians were considered part-time employees, as each Parliamentarian was assumed to also hold employment in the private sector.

The scheme covers all Parliamentarians, including senators, and is enacted within the Ministers and Members of the Legislature (Salaries and Pensions) Act 1975. As with the PSSF, COLA provisions are included in the Pension (Increase) Act 1972.

A summary of the provisions of the scheme (for official details, please refer to the relevant legislation):

- Retirement age is 60, though a participant is not expected to retire during an elected term. A participant may also retire at age 55 with 20+ years of service.
- Annual pension accrual rate is 3.6%.
- Salary for pension purposes is average salary over the period of service, but each period salary is adjusted to current salary levels.
- Maximum pension is 2/3rds of last salary or highest office salary held for 3 years, reevaluated to current salary levels.
- COLA increases are applied to pensions benefits after retirement on the same basis as with the PSSF.
- Vesting period is 8 years.
- 50% spouse pension.
- Additional amounts for each dependent child to a maximum of 4 and to a maximum age of 25.

## **Findings:**

1. As part of the Commission's work, and in view of the changes resulting from a general election, data was provided to the actuaries as at March 31, 2013. On the revised valuation, the assets are \$12 million, and the liabilities \$35 million, resulting in a deficit of \$23 million. At the time the

scheme was enacted in 1975, no separate fund was established, participant contributions were paid into and benefits were paid directly out of the Consolidated Fund of Government. A separate fund was established on April 1, 1988. As at March 31, 2013, the Consolidated Fund was responsible for an estimated \$6 million of liability of the total liability of \$35 million.

2. The actuaries have not prepared a run-off model as they have with the CPF and PSSF; however, the scheme is clearly unsustainable in its present form. Members contribute 12.5%, with a commitment of a matching contribution by Government. However, the actuarial cost of a participant's benefit accrual in the fund for the year ending March 31, 2012 was 37.3%. This is made up of the 12.5% participant contribution plus a liability to Government for an additional 24.8%. For the year ending March 31, 2013, this additional Government cost was 26.9% of each participant's compensation. Government has added the matching 12.5% portion to the assets, and as this is inadequate to cover the additional benefit accrual, the scheme's underfunded position will continue to deteriorate.
3. Pension benefit provisions in the MMLPF differ from those in the PSSF:
  - a. Annual pension accrual rate is 3.6% per year versus 1.5% in the PSSF. Therefore a participant in this scheme accrues a 61.2% pension after 17 years, whereas in the PSSF, it takes 40 years of service to receive the maximum 60% pension.
  - b. The salary for pension benefits is determined as the salary for each year of service adjusted to the most current salaries. For the PSSF it is the final month's salary times 12.
  - c. The maximum pension is determined as 2/3rds of the current salary of the highest office held for at least 3 years during the participant's service. For the PSSF, the maximum pension is 60% of final salary.
  - d. The spouse pension benefit is 50% on the death of the participant retiree plus 10% for each dependent (up to 4) compared to the spouse and dependent provisions, as outlined above in the PSSF section of this report.

## Recommendations:

The MMLPF pension scheme should be frozen, i.e. no new entrants to the scheme, and no further accrual of benefits should be permitted. In addition, adjustments should be made to the benefits to more closely match the structure of the PSSF. A new pension scheme should be established on a Defined Contribution basis.

The current MMLPF scheme has a deficit of \$23 million. However, with the proposed benefit changes as outlined below, the deficit reduces to \$15 million. The Commission recommends that Government make up this deficit in the fund immediately.

This will mean that the Consolidated Fund will no longer be liable for accrued benefits prior to April 1, 1988. Making this change will reduce the incurred cost to the Consolidated Fund accounts by approximately \$2.4 million per year at current salary levels.

The process for making this change is as follows:

1. The benefits should be modified over time in the following manner:
  - a. Participants, that have vested, and reached retirement age, may retire at the freeze date with the current accrued pension.
  - b. The pension age should be changed from 60 to 65 over a period of 10 years. This can be

achieved by graduating in “early retirement factors” each year in the same manner as for the PSSF shown in option 1 for the PSSF above.

- c. If a participant wishes to retire early due to meeting a service requirement, then the pension amount is reduced using the early retirement factors with additional reductions (determined by actuarial calculation) if the retirement age is below age 60.
- d. No further service accrues after the freeze date.
- e. Salaries for the pension benefit calculation are frozen.
- f. No further COLA increases should be given to pensions in payment (i.e. current or future retirees of this scheme).
- g. Vesting should be modified to at least 4 years, but not before the next General Election (i.e. one full term of Government). The current vesting provision of 8 years is inappropriate for an elected official.
- h. For a participant with less than 8 years of service, pension benefits are frozen in the scheme, and vest at the next general election or 4 years of service whichever comes first. Therefore, a participant with 1 year of service will qualify for 3.6% of the frozen pension salary at retirement after serving the vesting period.
- i. As with the PSSF, the pension at retirement is a single life pension, and a participant may purchase the spouse option (for their current spouse) on retirement at a cost of 10% of the amount of pension.
- j. As with “i” above, a cost should be determined in consultation with the actuaries for pension benefits which would be passed on to any dependents after the death of the retiree.

2. Establish a DC scheme commencing on the freeze date.

- a. The participant contribution rate should be 5%, with a Government matching contribution of 5%. This is consistent with the National Pension scheme guidelines. This will save Government an estimated 21.5% of a participant’s salary, and reduce the participant’s contribution into the pension scheme from 12.5% to 5% of their salary.
- b. Vesting period is 2 years. This is consistent with Bermuda private sector practice.
- c. Participants have a choice of investments, with guidance given as to the appropriate investment strategy for a person of their age with the time left to retirement.

## GOVERNMENT EMPLOYEE PRE-RETIREMENT LUMP SUM LEAVE

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The SAGE Commission has reviewed the Government Employee Pre-Retirement Lump Sum Leave (GEPLSL) Retirement Benefit provisions as provided for in the various Collective Bargaining Agreements and makes the following observations and recommendations:

### Observations

At present, the Government provides a pre-retirement lump sum leave (GEPLSL) benefit to certain eligible Government and quango employees upon retirement.

The amount of the benefit is based on years of continuous service. (See details below).

As at March 31, 2012, the actuarially determined Accrued Benefit Obligation for this benefit for non-quango employees was \$22.3 million and is 100% unfunded. In other words, the annual cost of this benefit is paid for from the Consolidated Fund each year.

The Actuarially Determined Obligation for non-quango employees at various dates is as follows:

ACTUARIAL VALUATION DATE	ACTUARIALLY DETERMINED OBLIGATION
March 31, 2012	\$22.3 million
March 31, 2013	\$23.6 million
March 31, 2014 – Estimate	\$25.1 million

Benefit Liabilities in the amount of \$24.3 million have been accrued in the Audited Consolidated Fund Financial Statements as at March 31, 2012 (Gross of Unamortised Actuarial Experience gains).

The Government's share of the cash flow cost of this benefit according to Actuarial reports is as follows:

FISCAL YEAR	GOVERNMENT'S SHARE OF BENEFIT PAYMENTS
Fiscal 2012	\$420,862
Fiscal 2013	\$1,320,059
Fiscal 2014 – Estimate	\$1,165,729
Fiscal 2015 – Estimate	\$1,358,595

This information has been taken from the Actuarial Valuation Reports prepared by the Government's external independent actuaries, Morneau Shepell, dated August 2012 and June 2013.

Other key information is as follows:

1. All active Members of the Public Service Superannuation Fund (PSSF), are entitled to a GEPLSL retirement benefit. To become eligible for this benefit upon retirement, a Member must have had 10 or more years of continuous service with Government.
2. The benefit is provided as a lump sum and is paid 100% by the Government.
3. The retirement age requirements mirror those of the PSSF rules.
4. The benefit lump sum payment is calculated as the ratio of weeks of pre-retirement leave and 52, multiplied by the employee's immediate pre-retirement salary. The scale is as follows:

• Less than 10 years of cont'd service	0 Weeks
• 10 to 14 years	4 Weeks
• 15 to 19 years	6 Weeks
• 20 to 24 years	8 Weeks
• 25 to 29 years	10 Weeks
• 30 years and over	12 Weeks
5. In addition to providing the GEPLSL benefit, the Government is also responsible for paying 100% of the payroll tax on this benefit. This amount has been included in the Accrued Actuarial Obligation shown above.
6. The number of non-quango potential retirees included in the Actuarial calculations as at March 31, 2012 was 4,838 of which the Police, Fire and Regiment total 815 Members.

## Findings

1. The average salary used in the calculation of the Accrued Actuarial Obligation as at March 31, 2012, was \$76,214 for Members other than the Police, Fire and Regiment, where the average salary used was \$85,100. A salary increase percentage of 4.25% was used for the Fiscal 2013 estimates.
2. The actuarial projections assume a retirement age of 62 with 8 years of service except for Special Groups such as the Police, Fire and Regiment members, where a retirement age of 55 with 8 years of service is assumed.
3. Based on discussion and enquiry with the local business community, no business was found in Bermuda that pays a similar lump sum benefit payment upon retirement.
4. The Government's independent actuary confirmed that it is quite common in Canada for provincial government employees to be eligible for a "severance credit" similar to the pre-retirement lump sum benefit paid by the Bermuda Government. However, he notes that recent negotiations amongst certain branches of the Canadian Government have attempted to freeze severance credits or eliminate them entirely.
5. As also stated by Government's independent actuary, "*... it is common, when considering changes to future eligibility, to vest those who are close to retirement or perhaps those with long term service. Usually the criteria for vesting are based on age, service or a combination of both*".

## Possible Options

In order to assist the Commission with gaining an understanding of the impact that various possible options would have on the Government's existing liability for this benefit and therefore future cash outflows, Government's actuary was asked to run a number of scenarios as follows:

1. Cease to provide this benefit for all new retirees after a Specified Date (SD).
2. Same as Option 1, but specify a transition period whereby certain current active employees of Government, who are of a certain age and who will have worked for Government for a certain continuous specified period of time, will be eligible for the current lump sum retirement benefit or some percentage of the benefit. This will provide a fair period of transition and not disqualify certain employees who have reached a particular age at the SD.
3. Same as Option 2, but freeze the amount to be paid at current salary levels and period of service or specify a fixed lesser amount to be paid by Government in the future.
4. Determine the accrued benefit for each active employee as at a SD based on the current rules and freeze the benefit to be paid to active employees when they retire and when/if they become eligible to receive the benefit. (i.e. calculate and freeze the amount to be paid based on the period of service up to the SD and based on salary levels at the SD).

We looked at the results of these different Options. The financial effect on the Consolidated Fund Financial Statements for our recommendation, based on the March 31, 2012 data as used by the Government's Actuary, is as follows:

DETAIL	RESULTING LIABILITY	FUTURE CASH FLOW SAVINGS
Current Plan	\$22,289,344	\$0
Accrued Benefit at SD (Option 4)	\$12,262,300	\$10,027,044

## Recommendation

The SAGE Commission recommends that the Collective Bargaining Agreements be renegotiated in respect of this benefit as follows:

- Determine the accrued benefit for each active employee as at a Specified Date (SD) based on the current rules and freeze the benefit to be paid to active employees when they retire and when/if they become eligible to receive the benefit. (i.e. calculate and freeze the amount to be paid based on the period of service up to the SD and based on salary levels at the SD).

This would save potentially \$10,027,044 dollars in future cash outflows and immediately remove this amount of unfunded liability from the Statement of Position of the Consolidated Fund, based on March 31, 2012 data. This amount will of course, change based on the data used at the SD.

## GOVERNMENT EMPLOYEE HEALTH INSURANCE (GEHI)

The Commission reviewed the Government Employee Health Insurance (GEHI) Retirement Benefit provisions as provided for in the GEHI Act 1986. The Commission did not look at the costs and provision of other health benefits provided to Government employees within GEHI.

### Important information

At present, the Government administers a health care plan, (GEHI), and in addition to providing medical insurance benefits for active employees, provides continued coverage for retirees and their eligible dependents upon retirement.

The annual cost of this medical coverage after retirement is shared equally between the Government and the retiree. (See further details below).

As at March 31, 2012, the actuarially determined Accrued Benefit Obligation for this benefit was \$249.9 million and is 100% unfunded. In other words, the annual cost of this benefit is paid for from the Consolidated Fund each year. The Actuarially Determined Obligation at various dates is as follows:

ACTUARIAL VALUATION DATE	ACTUARIALLY DETERMINED OBLIGATION
March 31, 2012	\$249.9 million
March 31, 2013	\$269.4 million
March 31, 2014 – Estimate	\$288.8 million

Benefit Liabilities in the amount of \$240.5 million have been accrued in the Consolidated Fund Financial Statements as at March 31, 2012 (Net of Unamortised Actuarial Experience losses). The Government's share of the cash flow cost of this benefit according to Actuarial reports is as follows<sup>1</sup>:

FISCAL YEAR	GOVERNMENT'S SHARE OF BENEFIT PAYMENTS
Fiscal 2012	\$6,449,217
Fiscal 2013	\$6,511,195
Fiscal 2014 – Estimate	\$8,440,785
Fiscal 2015 – Estimate	\$9,406,577

### Other key information is as follows:

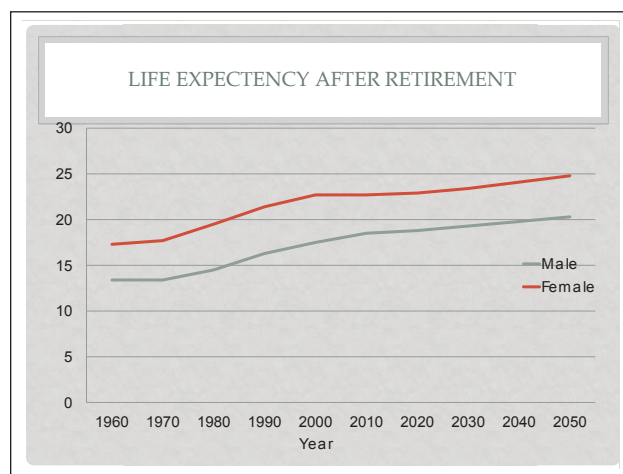
1. Of the \$249.9 million obligation at March 31, 2012, 41% relates to current retirees. This means that 59% or approximately \$147 million relates to those Government employees who have not yet retired.

<sup>1</sup> This information has been taken from the Actuarial Valuation Reports prepared by the Government's external independent actuaries, Morneau Shepell dated August 2012, and June 2013.

2. Only persons who are “actively employed” by the Government and enrolled in the GEHI plan at the time of retirement AND who are eligible to receive a pension under the PSSF (i.e. retiring) can receive this benefit.
3. If a person leaves Government BEFORE they are eligible to retire but subsequently receives a pension under the PSSF, they are NOT eligible to receive this retirement benefit.
4. During a member’s lifetime (after retirement) his or her spouse and any dependent children, may also continue to remain in the GEHI plan and enjoy the same contribution benefits as the retiring member. Should a member predecease his or her spouse, the spouse and any dependent children can continue to receive this benefit. This benefit continues even if the surviving spouse subsequently remarries. (Sec 22(3) of the GEHI Act 1986).
5. Enrolment of a retired Government employee in the plan is voluntary.
6. The benefit is extended to Members of the House, the Senate and quango employees.
7. The number of retirees at March 31, 2012 was 1,660 and the number of active employees for whom a benefit is being accrued was 5,061.

## Findings:

1. The actuarial projections assume extended Health Care Trend Rates of 9.0% in 2014 decreasing by 0.5% per annum to an ultimate rate of 5.0% in 2022 and thereafter.
2. The actuarial projections assume a Retirement age of 62 with 8 years of service, except for Special Groups such as the Police, Fire, Prison and Regiment members, where a retirement age of 55 with 8 years of service is assumed.
3. The actuarial projections assume 90% of eligible pensioners take up this benefit.
4. The lifespan of a 65 year old has been continuously increasing. In OECD countries, life expectancy after retirement is shown to have grown from 13.4 and 16.8 years in 1960 to 17.2 and 22.3 years (males and females) in 2000. By 2050, the life expectancy after retirement is projected to be 19.6 and 23.7 years. This means that the cost of this benefit per retiree will rise over time not only due to the increase in the cost of the benefit itself but also because the period of time over which this benefit will be paid, will increase.
5. Government’s share of the monthly contribution for a single member in the GEHI plan has risen 137% over the last 10 years, which represents an annual growth rate of 9%. The Government’s share of the annual contribution for a member with spouse was \$6,644 for the year ended March 31, 2012.
6. The audited accounts of six major public companies in Bermuda were reviewed with respect to the provision of a health benefit upon retirement. Discussions were also held with persons in the local



business community. Of the six public companies surveyed only one still makes a contribution to the cost of medical coverage for new retirees. The other five have allowed retirees to remain in the company's plan after retirement but at the full expense of the retiree. Many companies have moved away from making any post retirement contributions because of the significant and ever increasing cost of providing health coverage.

7. A survey was conducted within the health industry and local business community, the results of which indicated that most non-public local companies do not provide any financial assistance for medical coverage for retirees. Further, that most of those companies who have moved away from providing any paid benefit for new retirees have continued to pay pre-existing benefits to those already retired at the time of the change.
8. One public company has "fixed" the amount of the contribution it makes to those retirees who were in its health plan for retirees prior to the date of cessation of this benefit.
9. The Government's independent actuary advised that it is common, when considering changes to future eligibility, to vest those who are close to retirement or perhaps those with long-term service. Usually the criteria for vesting are based on age, service or a combination of both. The practice in the Bermuda business community, is that some companies have "grandfathered" some employees who had not reached retirement age at the time these companies changed the health benefits for new retirees. He noted that in Canada it is quite common for provincial government employees to be eligible for a government sponsored post-retirement benefit plan such as the GEHI plan.
10. The Government's actuary also disclosed that based on a survey carried out by his company, 73% of the Canadian listed companies surveyed, do sponsor some form of post-employment benefit plan. However, many are reducing their coverage for post-retirement health benefits. Appendix D contains a summary of the articles sourced for current trends in the USA.

## Possible Options:

In order to assist us with gaining an understanding of the impact that various possible options would have on the Government's existing liability for this benefit and therefore future cash outflows, we had the Government's actuary run a number of scenarios for us. We considered that there were four main variables that Government could adjust being:

- Fix the Amount that Government contributes in the future (current and/or future retirees).
- Put in place a "grandfathering" clause for future retirees.
- Limit those eligible for the retirement health benefit (no spouse and dependent benefits).
- Adjust the % of cost sharing in the future away from the current 50/50 policy.

We looked at multiple models of these variables.

## Recommendation:

The SAGE Commission recommends that the following changes be made to this benefit:

- Establish a FIXED amount to be paid annually on behalf of current retirees equal to the amount currently paid by Government for this benefit for the retiree, their spouse and any dependents.
- Change the existing rules so that only the present spouses and dependents of current

retirees are to benefit if the retiree dies. If a spouse subsequently remarries on the death of a retiree, then the spouse and any new dependents will no longer be eligible for any health benefits. The same rule will apply to any new retirees in the future.

- Cease providing health benefits for new retirees EXCEPT allow a 7-year Declining Grandfathering benefit.
- New retirees would NOT be eligible for any spouse or dependent retirement health benefit BUT could remain in the GEHI plan, paying 100% of the premium for the spouse and any dependents.

The financial effect on the Consolidated Fund Financial Statements for our recommendation, based on the March 31, 2012 data as used by the Government Actuary is as follows:

AS AT MARCH 31, 2012	RETIREE LIABILITY (THOSE ALREADY RETIRED) EMPLOYEES)	ACTIVE EMPLOYEE LIABILITY (CURRENT	TOTAL GOVERNMENT LIABILITY	FUTURE CASH FLOW SAVINGS
Current Plan	\$102,749,000	\$147,135,000	\$249,884,000	\$0
Recommendation	\$60,302,000	\$20,087,500	\$80,389,500	\$169,494,500

This would save potentially \$169.5 million in future cash outflows and immediately remove this amount from the Statement of Position of the Consolidated Fund, based on March 31, 2012 data. This number will, of course, change based on the data used at the time that the change is made.

# A Glide Path

## WHAT IS A GLIDE PATH?

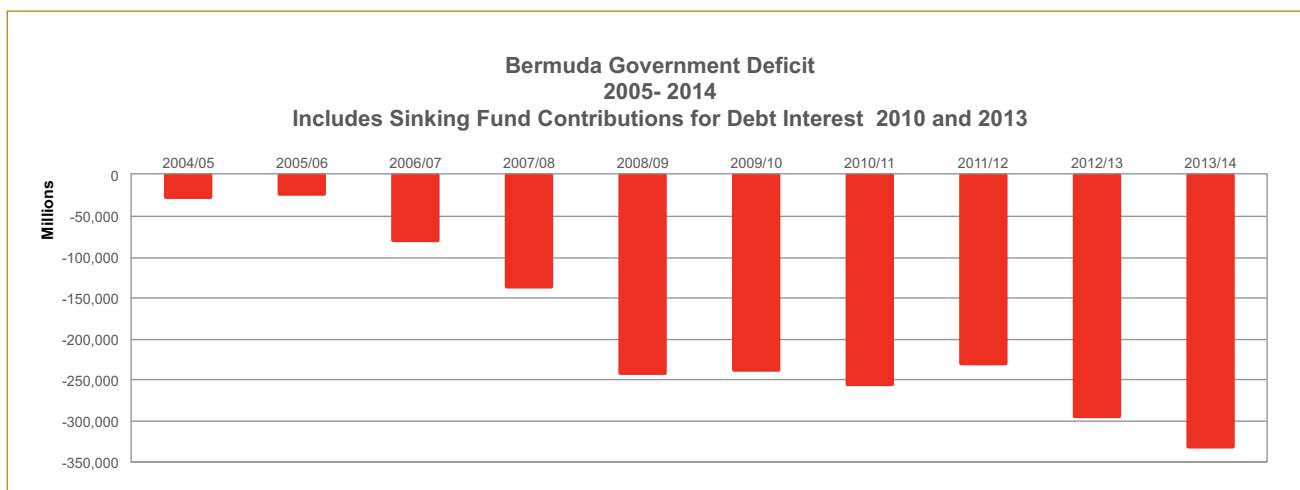
A glide path is the path prescribed for an airplane to make a safe landing. The SAGE Commission uses this analogy to describe a plan for eliminating the deficit of the Bermuda Government in a timeframe that the economy can withstand.

The size of the deficit and the state of the Bermuda economy are such that a large, one-off expense reduction would have too detrimental an effect on the economy and, more importantly, on affected workers.

Thus, any deficit reduction plan put in place requires a time frame that allows the economy to absorb cost reduction measures. The plan also needs to provide a period of time for Government revenue to catch up with expense reductions.

## THE NEED

The estimated Government deficit for 2013/2014 is \$331 million.



Bermuda cannot continue to carry a deficit of this size. In order to establish sustainability, the deficit must be eliminated over a carefully planned timeframe.

## Recommendations

The SAGE Commission recommends that Bermuda's deficit be eliminated over a four-year period in the following amounts per year:

• 2014/2015	\$65 million
• 2015/16	\$80 million
• 2016/17	\$85 million
• 2017/18	\$90 million
<b>Total</b>	<b>\$320 million</b>

The Commission's recommendation for a four-year time frame is based on the fact that almost every dollar eliminated from the budget will mean a corresponding decrease in Bermuda's economy of \$1.28. This is called the multiplier effect. An explanation of the multiplier effect is presented in the Glide Path section of the Appendix which is available to view on the flash drive included with this report.

If expense reductions were effected over a shorter period of time, the resulting increase in the amounts reduced each year would have an unacceptable negative effect on the economy.

These numbers assume Government revenue growth of 3% per annum (commencing in 2015-2016). If revenue doesn't grow by this amount, or reduces, expenditure reduction targets will need to be revised in line with the reduction of revenue.

If revenue grows at a faster rate, reduction targets can be adjusted accordingly or surplus revenue can be used to pay down the national debt.

We recommend that surplus revenues be used to pay down the national debt.

However, even if there is an increase in revenue, a base expenditure reduction of \$65 million must be achieved for each financial year so that the national debt can be paid back.

These numbers also assume that the deficit will not grow due to wage increases or extraordinary capital expenditure. If either of these occurs, then reduction targets will need to be increased by the amount of increase in wages or capital expenditure.

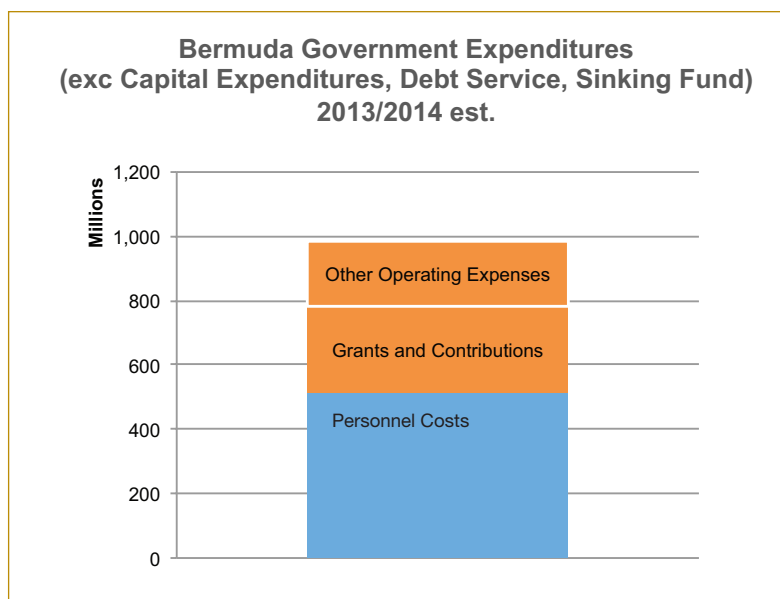
## THE PLAN

### Financial Year 2014/15

The theme of our glide path is to focus, where possible, on reductions in non-personnel expenditures. We therefore recommend the following:

- Reduce capital expenditure by the amount of the increase in the debt interest cost of the national debt, thus keeping the deficit number neutral.
- In order to reach the required amount, do not simply seek an across the board equal expenditure reductions for each department. Rather, require each Department to review each of its activities/programmes by asking the question *"Is this something Government needs to be doing at this time?"*. Eliminate all unnecessary activities/programmes thereby identified.
- Abolish all posts which are budgeted but not filled.
- Each Department must look at reducing general (non-personnel) operating expenses beginning with non-Bermuda dollar expenses such as foreign consultants and other overseas expenditures.
- Each Department must then look at reducing funding of grants and contributions.

- All of these steps set out above must be accomplished within the first month of the financial year.



By June 30 of the financial year, an accounting of the estimated savings for the financial year must be tallied. If the savings do not reach the required number, then personnel costs must immediately be reduced to cover the shortfall.

Personnel numbers should be reduced in the following order, followed by reductions in salaries and wages:

1. Terminate poor performers first. If more savings are required:
2. Require personnel who are past the retirement age to retire. If more savings are required:
3. Incentivise personnel who are eligible to retire (and can access their pensions) to retire. If more savings are required:
4. Reduce salary and wages of all personnel to achieve the required savings. We recommend that reductions are not applied across the board but are levied, least on the lower paid and more on higher paid, in an amount sufficient to reach the required amount of savings.

**For Financial Years 2015/2016  
2016/2017  
2017/ 2018**

- Repeat the deficit reductions as set out above. However, instead of waiting until the first month of the new financial year, the reduction exercise for the new financial year should be completed as part of budget preparations so that the new budget reflects the required savings.
- At the close of each quarter of each financial year, the quarter should be reviewed to ensure that the required savings are being achieved. If they are not, the appropriate adjustments should be made immediately to ensure that savings are achieved for the year.
- As savings are achieved each year by the elimination of unnecessary activities/programmes,

and reductions made to general expenses grants and contributions in the following years, there will be less to save in those areas thereby increasing the need to cut personnel costs in the later years.

There will be savings from streamlining (consolidating Departments and Ministries) as well as from privatisation and outsourcing initiatives. However, Departmental consolidation is as much about focus and performance as the elimination of costs. Consolidation of Departments and/or Ministries will not significantly dent Government's deficit. These reductions will be at the back end of a four-year cost reduction plan and cannot be relied onto address immediate cost reduction priorities.

Privatisation and outsourcing initiatives may have significant impact on reducing Government operating costs. However, we estimate that it may take 18-24 months for the Privatisation and Outsourcing Authority to be in a position to implement any strategies.

Ultimately, staff downsizing would not necessarily be a reflection of the performance or quality of Government workers: it would be a sad and necessary requirement to contain a Government cost structure that is unsustainable and out of control.

For the past several years, Bermuda has had to borrow money to pay public sector wages.

Unless significant reductions are achieved in non-personnel cost expenses, Government cannot afford its personnel costs and pension burden.

It is not fair to maintain and/or hire workers when their salaries and pension benefits cannot be met.

