

Austerity Budget Sets the Stage for Showdowns with Unions, Opposition Parties

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March 27, 2012

Austerity is the over-arching theme of the 2012 Budget, in which the government asks all Ontarians to play a role in eliminating the deficit.

Strong Action for Ontario proposes to reduce program spending growth and contain costs by \$17.7 billion over the next three years, while increasing revenues by \$4.4 billion without raising taxes. This four-to-one ratio of cuts to revenue increases is one of the Budget's proudest boasts.

In large part the government hopes to achieve its saving targets by targeting the growth of public service salaries. The government could not have been clearer in the warning it sent public sector workers and employers as they enter their collective bargaining negotiations:

"The collective bargaining process will be respected. Where agreements cannot be negotiated that are consistent with the plan to balance the budget and protect priority services, the government is prepared to propose the necessary administrative and legislative measures."

In other words, hold salary increases to zero and negotiate pension concessions or legislation will be introduced to do it for you.

As one might expect, union leaders have a very different take on "respecting the collective bargaining process." While most express significant disappointment with the approach the government proposes, so far they have not declared open war. The reactions of the bodies representing teachers, doctors, civil servants, university and college staff and other groups will be important to watch over the coming weeks and months.

Opposition Reaction

Not since the mid-1970's has Ontario witnessed a Budget debate in a real minority Parliament, where the government must anticipate the reaction of the opposition parties in order to ensure sufficient support in the House or face a return to the polls. (The Peterson government Budgets of 1985-87 don't count, in that the Accord with the NDP ensured passage.)

In an afternoon press conference, Opposition Leader Tim Hudak immediately decried the Budget for a fainthearted approach to fiscal control, maintaining that the cuts are neither deep enough nor broad enough. On the other hand, NDP leader Andrea Horwath raised concerns about interference in collective bargaining, the freeze in support for the neediest Ontarians and lack of a job creation program.

Hudak stated unequivocally that he and all members of his caucus will vote against the Budget. In getting out ahead on this issue he put the pressure on Horwath to either support the government on what will be for many of her supporters a very unpalatable Budget, or be seen as the one forcing an election.

Despite that strategy, it is unlikely that Hudak and the PC's would escape unscathed should Ontarians actually be forced to the polls. While the Budget scenario is challenging for all political parties, the Liberals are in a somewhat better position than the opposition in that the latter would need to justify voting against one of the most significant restraint packages in Ontario history and forcing the public to return to the polls just six months after the last election. (Not to mention that the PCs would have to go into the campaign with far higher debt and lower fundraising capacity than the Liberals they are trying to displace.)

While there will be lots of posturing over the coming weeks, it is unlikely either opposition party will gamble on forcing an election. In the end, having a few members away with "Parliamentary flu" may allow the Opposition to oppose the Budget without defeating the government.

Deficits

The Budget reports a deficit for 2011-12 of \$15.3 billion, \$1 billion lower than last year's forecast.

For the coming year, the deficit is forecast to come in slightly lower at \$15.2 billion. (Though it is worth noting that Minister Duncan, exhibiting a lesson well-learned from his Windsor mentor, former federal Finance Minister Paul Martin, has consistently forecast deficits that he is able to improve on over the following year.) During the following four years the deficit is forecast to drop steadily to zero in 2017-18.

Duncan noted that both the Drummond Report and other experts had stated that this would be impossible without a large-scale government restraint program. Indeed, Drummond pegged the 2017-18 deficit at \$30 billion under a status quo scenario.

Economic Forecast

The Budget predicts economic growth of 1.7% this year followed by 2.2% in 2013, fairly modest numbers that are within the lower end of the range for private sector forecasts.

It also anticipates 0.9 per cent job growth in 2012, about half the rate of 2011. However, the slowing job creation is less drastic than it seems, coming on top of 300,000 new jobs since the recessionary low of June 2009. Indeed, the Budget highlights that Ontario's job recovery has exceeded that of almost all other comparable jurisdictions.

Taxes

The government is being very careful to avoid the perception they are raising taxes in Budget 2012, although they have announced the cancellation of planned cuts to the Corporate Income Tax Rate and Business Education Tax rate – in effect freezing tax levels at the current level "until the budget is balanced."

Expect the Opposition Progressive Conservatives to seize on this policy shift and criticize the government for an 'anti-business' or 'anti jobs' move (mindful of the precedent the Eves government set in 2002 in delaying planned tax cuts.) For their part, the New Democrats should be placated by this move, as a freeze in the corporate tax rate was one of their central campaign planks in the recent provincial election.

Budget 2012 highlights on taxes:

- Freeze the general Corporate Income Tax rate at 11.5%, resulting in \$1.5 billion in additional revenue by 2015.
- Freeze Business Education Tax rate until the Budget is balanced, resulting in \$600 million in additional revenue by 2015.
- Ensure Ontario user fees recover more of the cost of providing programs and services – “increasing fees to move closer to full-cost recovery.” This is estimated to result in \$600 million in additional revenue by 2015.
- Taxation revenue for the fiscal year just ended (2011-12 fiscal year) was \$638 million *lower* than forecast in the 2011 Budget, as a result of slower economic growth.

Expenditure Growth

As noted, there are to be \$17.7 billion in program spending controls over three years. These are divided into three main categories:

- \$4.9 billion from removing overlap and duplication, implementing more efficient delivery models and focusing on core business
- \$6 billion in government action to restrain compensation for school boards, payments to physicians and public servants
- \$6.8 billion to contain costs across the broader public sector

An unprecedented Addendum to the Budget contains ministry-by-ministry detail on many of these programs reductions, from previously announced actions like the partial closure of Ontario Place to minor administrative efficiencies in the Office of the Premier.

Health

Given that spending by the Ministry of Health and Long-Term Care is the single largest line item in the provincial Budget (accounting for 41.8% of total program spending in 2012-13), there is a significant focus on health spending in Budget 2012. In particular, the wages paid to doctors and other broader public sector employees are a major restraint target. Overall, salaries account for 50 cents of every dollar spent by the Ontario government.) The attempt to rein in health sector salaries will be a major battleground over the next several months.

Overall, the government has followed closely its *Action Plan for Health Care*, released earlier this year, by continuing to shift resources to community-based health care.

Budget 2012 highlights on health care:

- Health spending will increase by 2.3% in 2012-13, and will average 2.1% over the next three years.

- Proposed zero percent increase for Ontario’s doctors, although negotiations between the Ontario government and the Ontario Medical Association have just begun.
- Zero percent increase in global budgets for hospitals, although a 2% operating funding increase will be given for targeted programs (e.g. wait time reduction).
- Continued investment in community care sector by average of 4% annually over the next three years.
- As of August 2014, the Ontario Drug Benefit (ODB) will be income-tested, for seniors with an income over \$100,000 (approximately 5% of Ontario’s seniors.) Seniors at this income level will be required to pay a deductible (\$100 plus 3% of income over \$100,000.)
- Cancellation / Scoping of hospital projects not yet under construction for a total savings of \$1.5 billion over the next three years:
 - West Lincoln Memorial Hospital redevelopment – CANCELLED
 - Sunnybrook Health Sciences Centre (Hemodialysis Unit) – CANCELLED
 - South Bruce Grey Health Centre (Emergency Project) – CANCELLED
 - Wingham District Hospital (Inpatient Project) – CANCELLED
 - Brockville General Hospital (Mental Health/Rehab) – RE-SCOPED
 - St. Thomas Elgin General Hospital (Emergency) – RE-SCOPED
- Reduction in Long-Term Care Home funding by \$70 million annually.

Infrastructure

Despite \$900 million in capital projects cuts over the next three years, and fully \$3.2 billion over six years, infrastructure spending remains very robust by historical terms.

The 2012 Ontario Budget calls for infrastructure spending in 2012-13 of \$12.9 billion, the same record level as last year. Over this year and the following two years, the government will meet its forecast \$35 billion infrastructure support level announced as the first phase of the long-term infrastructure plan in *Building Together*.

It appears that Ontario continues to recognize that a steady, long-term infrastructure spending program is essential to job creation, management of existing assets and provision of necessary.

The areas of reduction in infrastructure funding includes cancellation of a number of hospital projects (see the health section), delays in expansion of the HOV lane network on Ontario highways, deferral of new investment in government buildings and significant reductions in unallocated capital funding for schools and postsecondary institutions.

The Budget did not reference the need to move to full-cost pricing for water, a major recommendation of the Drummond Report.

Agriculture

The Budget papers outline the government’s intention to limit their liabilities under the Business Risk Management Program announced in last year’s Budget. While the Budget maintains this year’s allocation at \$100 million, the government says it will involve farmers in

the redesign of these programs to focus on supporting productivity while limiting the government's overall exposure.

The Budget commits ongoing support to these programs up to a maximum of \$100 million.

Education

It is no surprise that the government is maintaining its commitment to education by going ahead with the implementation of full-day learning by 2014 and maintaining a cap on class sizes for younger children in the early grades, notwithstanding the Drummond recommendations.

The ability to maintain the government's coveted programs is largely dependent on the successful negotiations with teacher unions and board restructuring. The Budget indicates that the Government is prepared to consider legislative measure if the collective bargaining process breaks down. The stakes are high given this government's longstanding and deep commitment to the education file. What remains less clear is their appetite for labour strife in education.

The Budget also commits to protecting nearly 10,000 teaching positions and nearly 10,000 non-teaching positions. These commitments are contingent on the government's success in the next round of labour negotiations with teachers.

Under its expense management plan, the government, through reduced incentives in the education funding formula, will be looking to close some underutilized schools across the province where other options exist. It will also be looking to amalgamate some neighbouring district boards to encourage efficiencies. This exercise will not include the merging of public and separate school boards.

The Budget is silent on initiatives to support the not-for profit licensed child care sector that has been directly impacted by the full day learning implementation.

Postsecondary Education

The Budget announces an average growth of 1.9 percent across the postsecondary and training sectors between 2011-12 and 2014-15, an increase of \$0.4 billion mostly through enrollment growth and the Second Career program. Other items in the budget of interest to the sector are:

- A two-year extension of the executive compensation freeze.
- There are no changes to already announced capital expansion projects. The budget does however announce a reduction of otherwise unallocated capital funding that was to help the sector. These savings won't impact the budget until 2015-16.
- Highlighting the fact that Ontario's 20 universities have more than 25 pension plans, the government will introduce legislation this fall that would pool investment management functions of smaller public-sector pensions to help put them on a more secure footing.
- Eliminating the Study-Abroad Scholarships and reducing support to institutions for non-PhD international students.

- Unnamed innovation and productivity savings starting in 2013-14 (\$40 million) and (\$81 million the following year), with the details to be announced early this summer.

Children's and Social Services, Housing

In today's Budget, the government is taking important steps to ensure that the supports and social services Ontarians need are sustainable over the long term. Expenses in the children's and social services sector are projected to grow by an average annual rate of 2.7 per cent per year over the medium term. This funding will support the ongoing transformation of services.

With modest increases across the children's and social services sector the issue will be the degree to which the potential cumulative impact of the various transformation and expense management measures will have on vulnerable Ontarians.

Some of the Budget highlights for the children's and social services areas include:

- No new funding for child care but a recognition of challenges facing sector - commitment to modernize child care sector to coincide with full implementation of full day learning
- Implementation of staged increase to the Ontario child benefit for 2012/13 delayed – increase will now come in two stages- from \$1,100 to \$1,210 on July 2013 and then to \$1310 on July 14.
- Developmental services- continuing to transform the sector by integrating special services at home with Passport program in the spring of 2012. Government looking to shift to a more strategic approach to developmental services funding to give individuals and families more choice; create opportunities for individuals to participate more fully in the community while encouraging efficiencies.

Expense management measures impacting the sector include:

- MCYS – government emphasis on community based alternatives has created over capacity of system -closure of Bluewater, downsizing of Cecil Facer Youth Centre and Brookside Youth Centre
- Ministry of Community and Social Services – rationalization of central support and administration
- phased 2 year phased-in closure of Thistle Town – linked children's mental health strategy for a more decentralized community-based modeled
- Community Start-Up and Maintenance Benefit and Home Repairs Benefit- removal from social assistance with housing supports delivered as part of the Long-Term Affordable Housing Strategy
- Replacing existing municipal – provincial cost sharing for discretionary benefits with a \$10.00 cap for both health and non-health discretionary benefits resulting in a revised funding formula with municipalities
- Children and Youth – containing child protection costs through transformation of children's aid societies (\$49 million over 3 years)
- Housing – ending the Albert Rose Bursary for one-time support for postsecondary students living in social housing (\$3.5 million over three years)

- Reduction of the social housing transfer reductions (\$15 million over three years) representing the decrease in provincial expenses based on the projected federal funding decreased

The challenge for the government will be in implementing these program reductions while cushioning the cumulative impact on certain vulnerable populations. Since budgets for social services have been flatlined, this will result in cuts and longer wait times for services

Energy

Energy is one area largely untouched by Budget 2012. The only notable policy change is a cap on the 10% Ontario Clean Energy Benefit at 3,000 kWh per month, beginning September 1, 2012. This will result in an estimated \$500 million in savings over the next four years.

At this level, it is believed the Benefit will still be applied to the vast majority of residential and small business energy bills, given the average household in Ontario uses approximately 1,000 kWh per month. The Budget expresses hope this will encourage further conservation on the part of larger energy users.

While the Benefit is set to expire on December 31, 2015, both opposition parties pledged to keep in place the Benefit for that timeframe in the last election. We do not expect the new cap to be a major point of debate between the government and opposition parties.

There is also a commitment to reduce internal costs at the Ministry of Energy by \$3.1 million over the next three years.

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