The 2012 Provincial and Federal Budgets

Presentation to
Finance and Administration Committee

Bill Hughes
April 5, 2012

The Commission on the Reform of Public Services (Drummond)

The Commission's Mandate

In Scope:

- Advise on how to balance the budget earlier than the 2017-18 fiscal year
- Once the budget is balanced, ensure a sustainable fiscal environment
- Ensure the government is getting value for money in all its activities

Out of Scope:

- Do not recommend privatization of health care or education
- Do not recommend tax increases

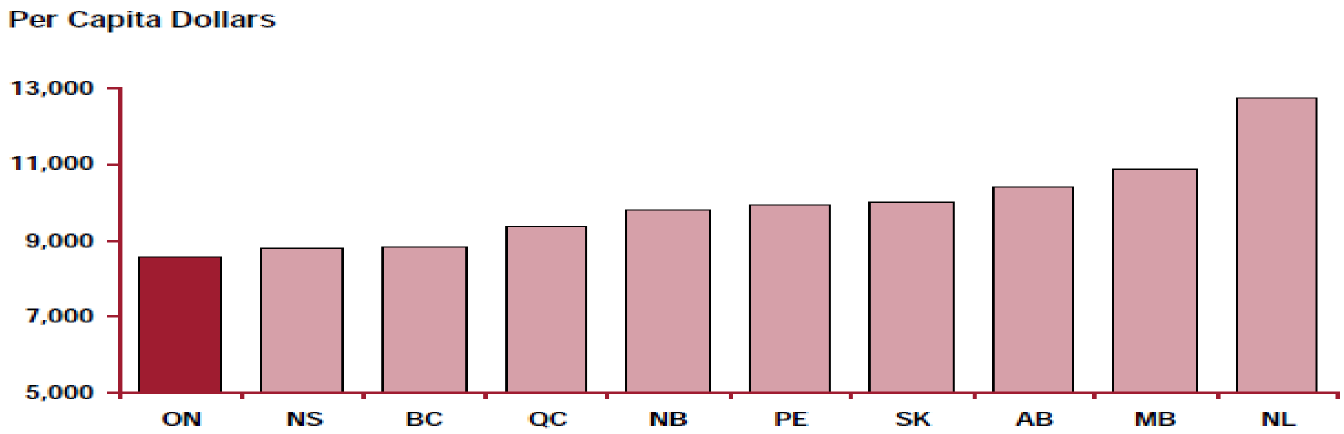
The Underlying Premises

- Excellence of public services and affordability (meaning a balanced budget) are compatible goals
- The means of reconciliation is greater efficiency to lower costs
- Greater efficiency requires reforming public services

Deeper Underlying Premises

- Ontario's economic growth will be permanently lower in the future
- Even though Ontario's per capita spending is low in comparison to other provinces, the fiscal solution lies with still lower spending
- A shift from broad-based to need-based programs will not undermine the social consensus for those programs

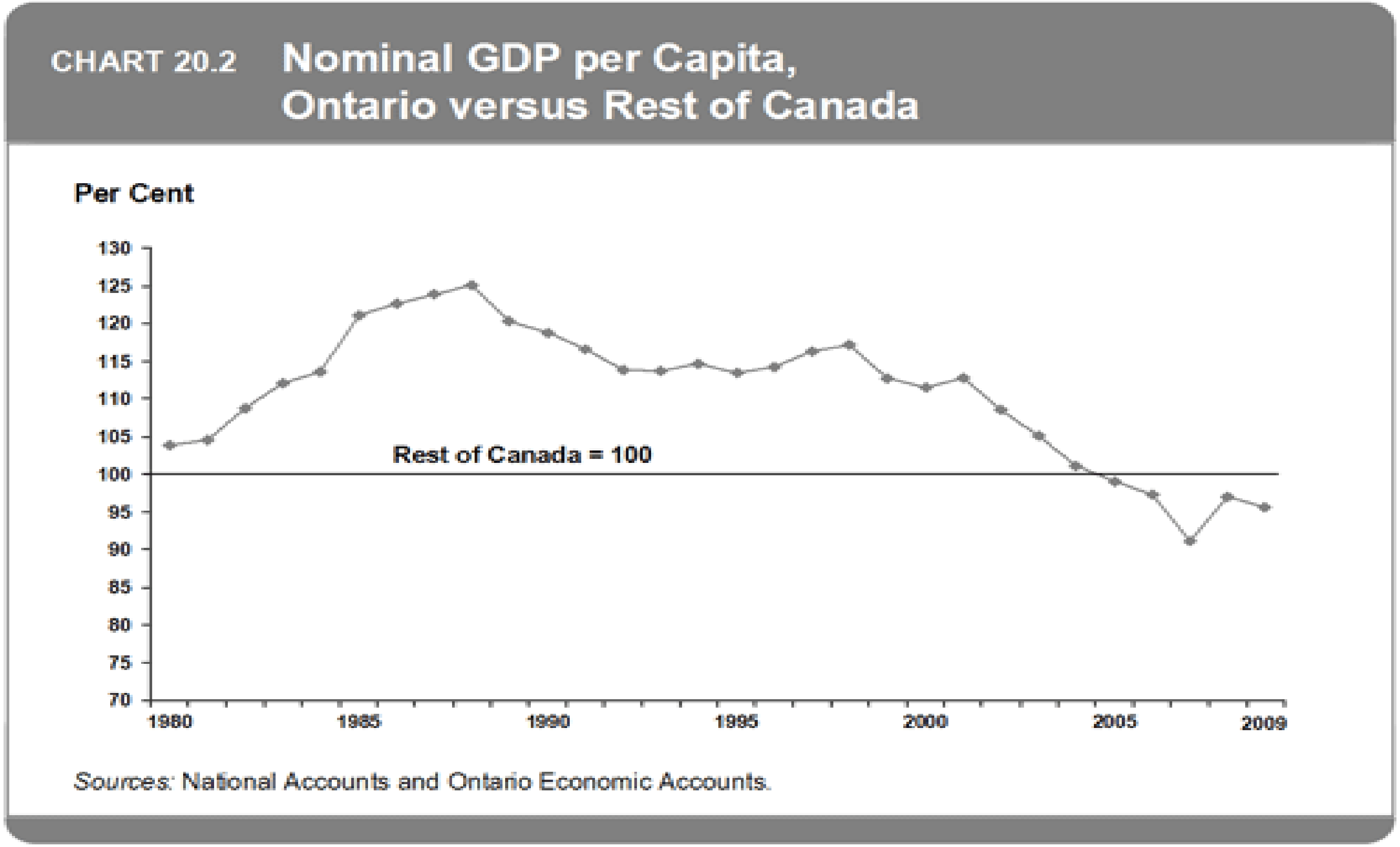
CHART 1.10 **Ontario Is Projected to Have the Lowest Program Spending Per Capita in 2011–12**



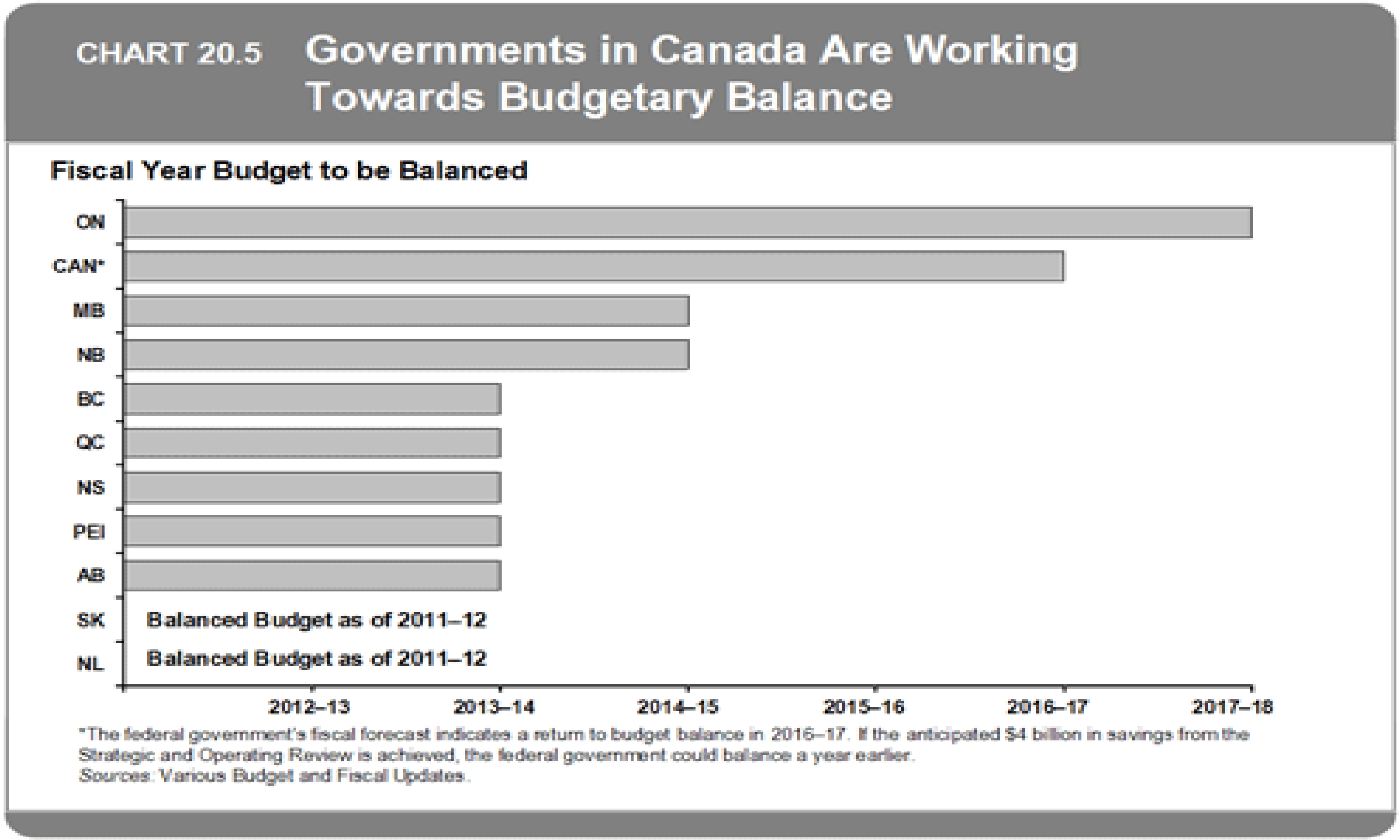
Note: Figures are as reported in provincial budgets and updates.
Sources: Ontario Ministry of Finance and Provincial Budgets and Updates.

The Provincial Budget

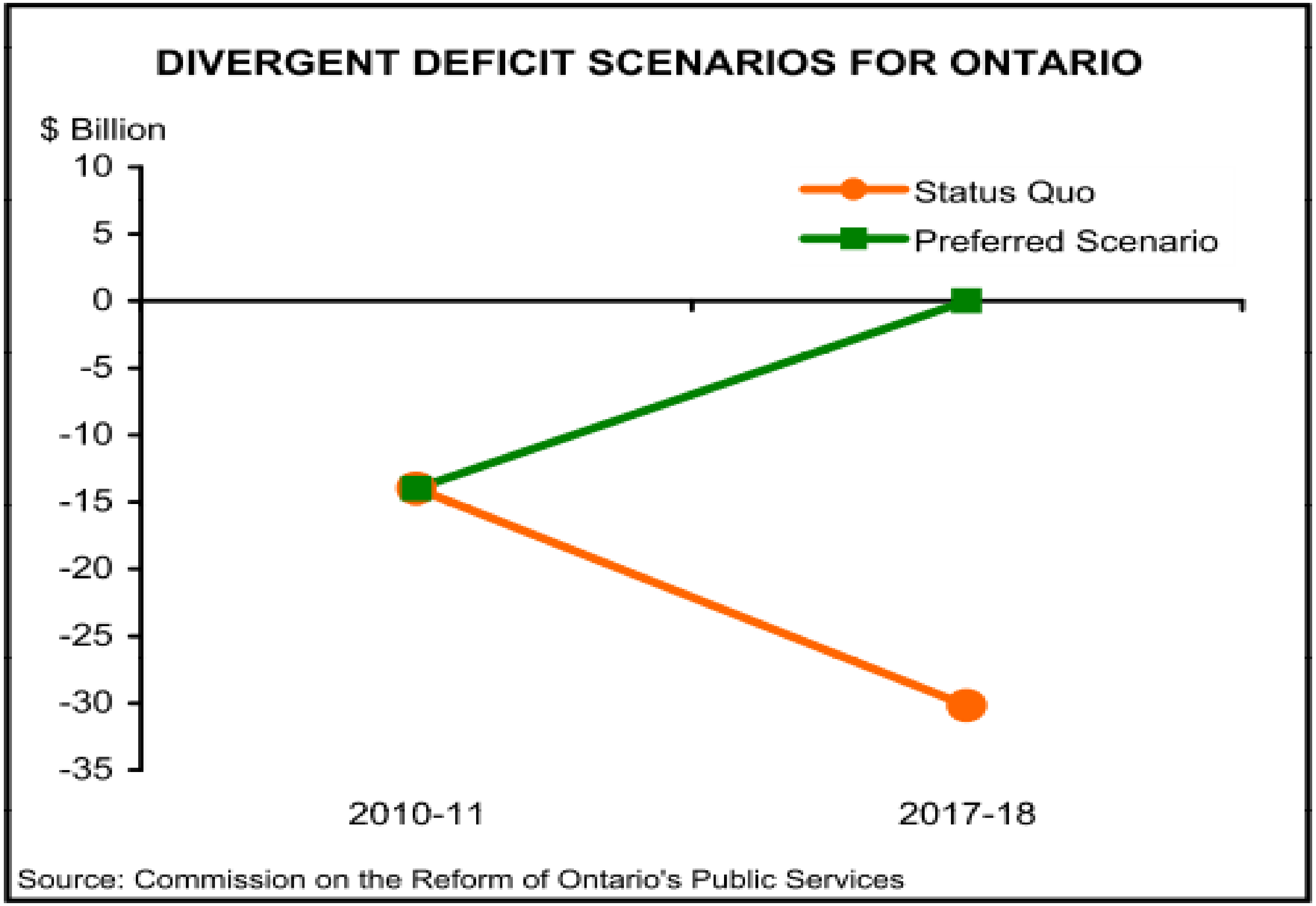
Economic Problems Beget Fiscal Challenges



Ontario's Path To Balance Is Slow



Do Nothing = A $30 Billion Deficit



The Basic Fiscal Strategy

- Balance the budget by 2017-18 through:
  - A two-year wage freeze for most public servants paid by the province, backed up with the threat of legislation
  - Risk of pension shortfalls transferred to employees
  - Claw-back of a portion of the Ontario Clean Energy Benefit and the Ontario Drug Benefit
  - $17.7 billion in program cuts and cost avoidance over three years
  - A shift from expensive acute care in hospitals to family health teams, home care, community care and specialized clinics
  - Better economic growth than forecast in the Drummond report
- The province is attempting to lower the cost of government without significant reductions in service levels
- The desire to avoid a credit downgrade was a key motivator

Severe Spending Caps In All Sectors

Forecast Annual Growth Rates 2012-13 to 2015-16 (%)			
Sector	Growth Previous Ten Years	Drummond	Budget 2012
Health	7.1	2.5	2.1
Education	4.5	1.0	1.7
Post-Secondary	8.2	1.5	1.9
Children’s and Social Services	6.2	0.5	2.7
Justice	n.a.	-2.4	0.4
Other Programs	8.5	-2.4	-4.3
Total	**6.8**	**0.8**	**1.0**

Province Seeking to Preserve Gains in Education

Preserved

Full-Day Kindergarten

Primary class size caps and average class sizes for other grades

Number of teaching positions

30% Off Tuition Grant

Savings

Two year wage freeze

Elimination of sick day banking

Close under-utilized schools

Amalgamate school boards

Cuts in transportation

Cap on secondary school credits

Various scholarship programs

Pension shortfalls will not be made up by the Province

Health Sector Reform Essential to the Fiscal Plan

Transformation

Prevention: childhood obesity strategy, tobacco law enforcement, online Personalized Cancer Risk Profile, expand cancer screening

Better access to family health care providers

Give LHINs flexibility to allocate resources to keep people out of hospitals

Care coordinators for seniors

Investment in community-based chronic care

Savings

Freeze total physician compensation

Hospital base funding to be held at zero; 4% for community care

Shift routine procedures to specialized clinics

Evidence-based decisions

Patient-centered funding (best practice prices for types and volumes of care)

New income-tested deductibles for the Ontario Drug Benefit

Subtle Changes In Social Services

- No change in social assistance rates
- Delayed increase in the Ontario Child Benefit
- One-stop shopping for social assistance recipients seeking work through Employment Ontario, including ODSP
- Non-health and health-related discretionary benefits for social assistance recipients capped at $10.00 per OW and ODSP monthly case (in contrast to $8.75 for non-health-related benefits and no cap for health-related benefits)
- Community Start-Up Maintenance Benefit and Home Repair Benefit removed from social assistance
- Cost containment applied to Children's Aid Societies: amalgamations, new funding model, Child Protection Information Network

Shifting Pension Risk To Employees

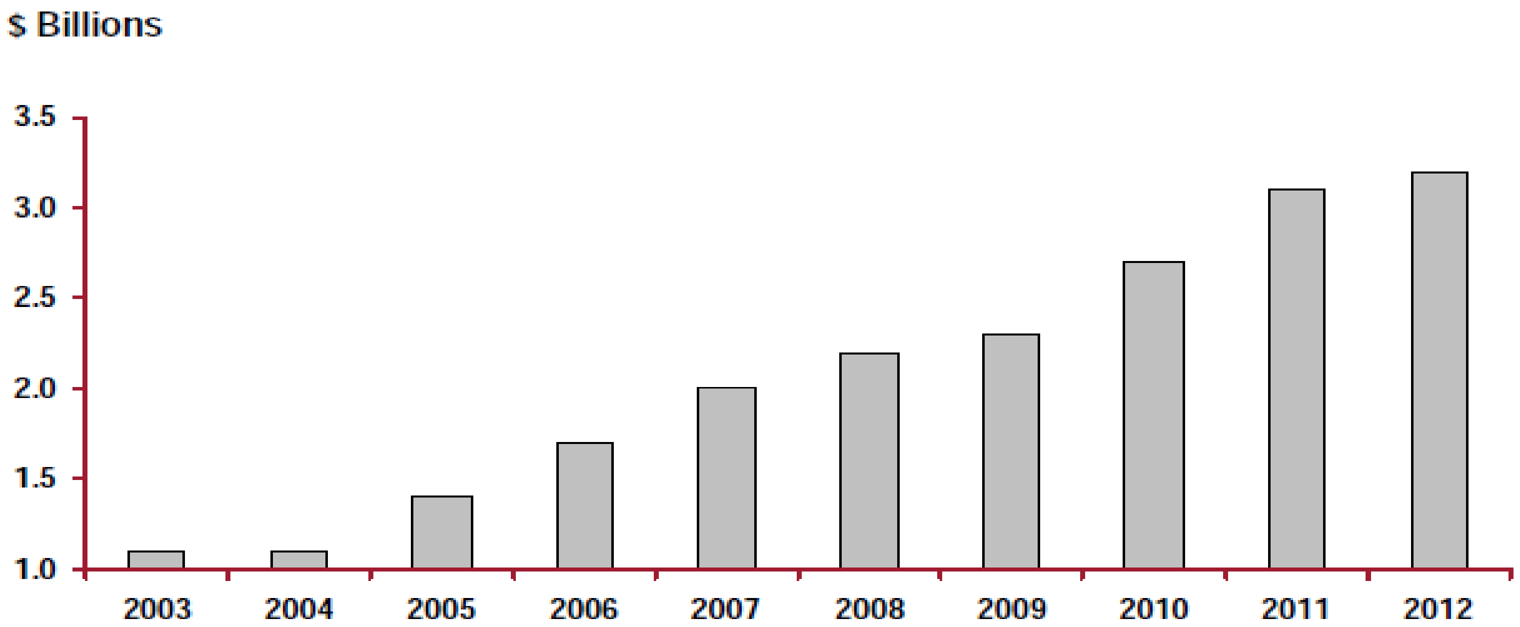
- Pension costs are a rapidly increasing component of the Provincial budget
- A key aspect of the government's exposure is the shortfalls in some of the jointly sponsored plans
- The government is proposing that pension deficits would be made up by reductions in future benefits, before increasing contribution rates or payments from the Province
- This is a very significant change. The impact will depend in part on details in legislation
- OMERS is a jointly sponsored plan, but the Province does not contribute to it

Infrastructure Plan Preserved, But With Cuts

- The Province's three-year $35 billion Infrastructure Plan survives
- Significant infrastructure cuts are embedded in the budget:
  - No new HOV lanes
  - Cuts to highway rehabilitation
  - Selected cuts to highway expansion
  - Hospital capital projects cancelled or re-scoped (but not Vaughan)
  - A variety of cuts to capital renewal spending across the board, including schools
  - Building Canada projects to be funded from other parts of the provincial capital plan (limits municipal projects)
  - Reduction in unallocated funds for post-secondary expansion
- Little likelihood of new infrastructure programs for municipalities in the near term

Upload From Municipalities Preserved

CHART 1.8 **Ongoing Support to Municipalities Has Increased from $1 Billion in 2003 to $3.2 Billion in 2012**

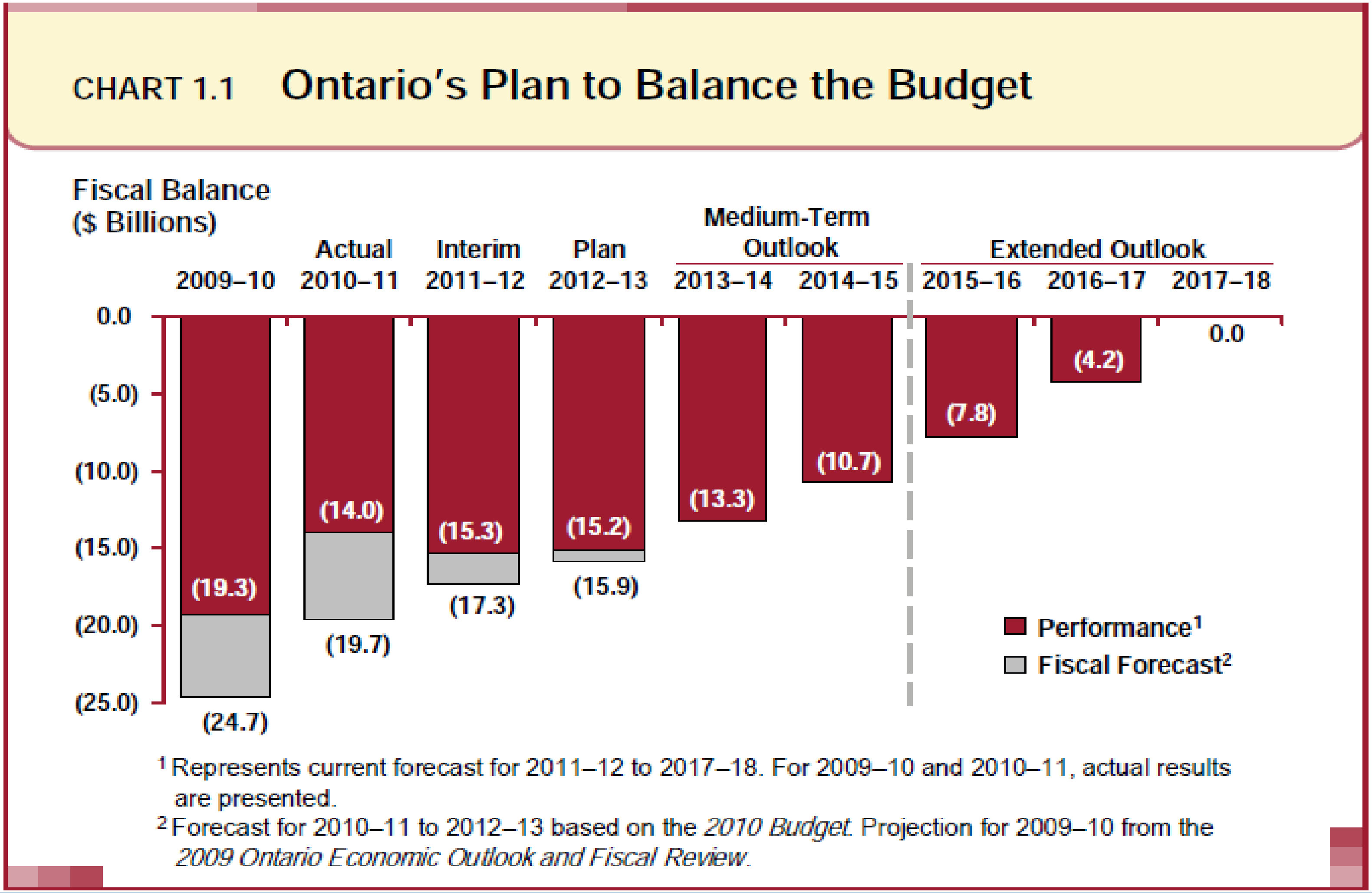


Source: Provincial-Municipal Fiscal and Service Delivery Review, "Facing the Future Together," (October 2008); adjusted to reflect the Ontario Works Administration Funding Model announced in 2011.

Other Implications For Municipalities

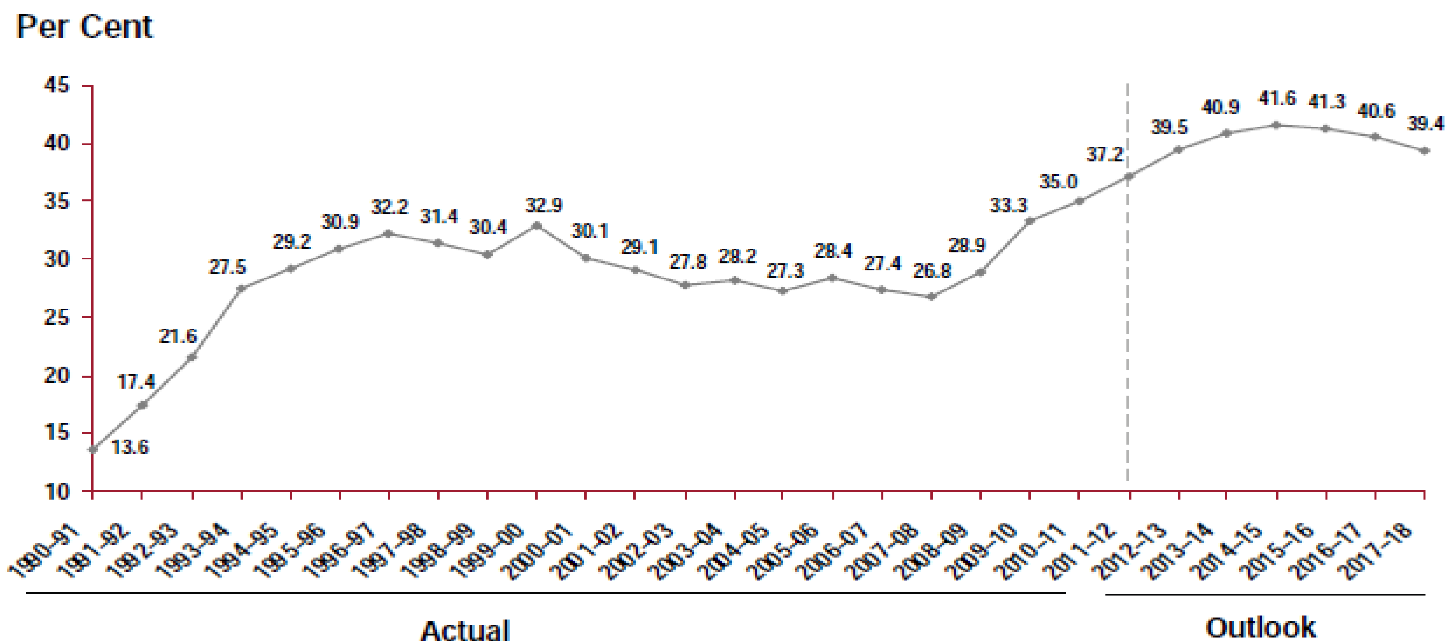
- Recovery of unpaid Provincial Offences Act fines:
  - Licence plate denial for fines related to motor vehicles
  - Unpaid fines set off against refunds from the CRA
- The province will require businesses to be compliant with their tax obligations before bidding on projects where provincial funding is involved

The Path Back To Balance By 2017-18



Net Debt to GDP Ratio Falls In 2014-15

CHART 5.5 **Net Debt-to-GDP**



Net Debt has been restated to include Broader Public Sector Net Debt, starting in 2005–06.
Source: Ontario Ministry of Finance.

Strategic Considerations

- The fiscal plan is very challenging and will be difficult to achieve. This could affect municipal fiscal planning
- The cuts in social services will create pressure on municipalities to begin to reverse the uploads agreed to as part of the Provincial-Municipal Fiscal and Service Delivery Review

The Federal Budget

Basic Fiscal Strategy

- Limit transfers to the provinces: Canada Health Transfer, and Canada Social Transfer
- Raise the age of eligibility for Old Age Security from 65 to 67, beginning in 2023
- After a program review that covered $75 billion of federal spending, cut $5.2 billion in spending and eliminate 19,200 federal positions
- Change the pensions for federal public servants so that they are contributing 50% of the cost and benefits are reduced (retirement age raised from 60 to 65 for those joining the public service in 2013)

Budget Has Little Impact on Municipalities

- No change in federal support for municipalities
- Federal government working with the Federation of Canadian Municipalities on a new infrastructure plan that “extends beyond the expiry of the Building Canada Plan in 2014”
  - Focus on long-term economic growth
  - Leveraging funding from other governments
  - Greater involvement of the private sector
- A new two-year $150 million Community Infrastructure Improvement Fund was announced:
  - Delivered by the regional development agencies
  - Municipalities, community organizations and not-for-profits to share costs
  - Repairs and improvements to existing facilities, such as community centers
  - Criteria include project readiness and job creation

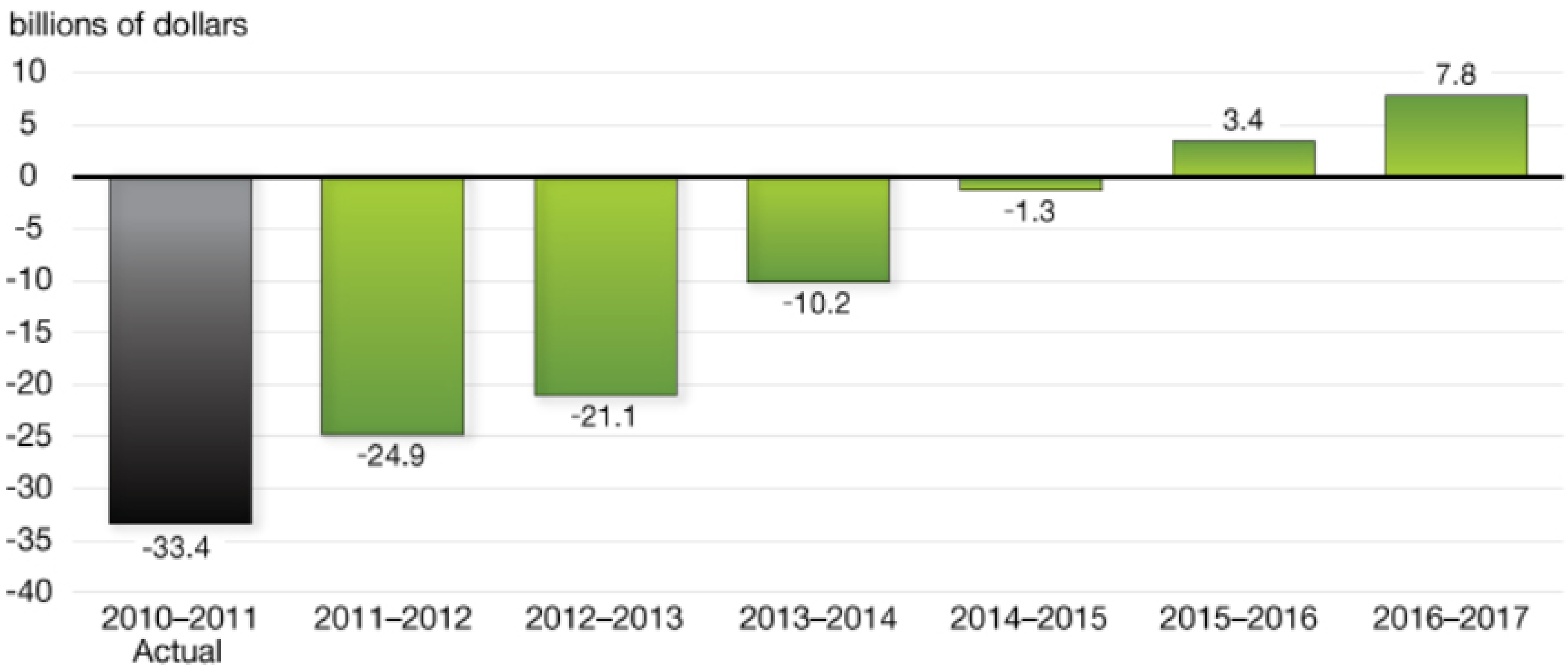
Other Measures of Interest

- No tax expenditures or reductions of note
- "One project, one review" in a clearly defined time period for resource sector projects
- Focus R&D support on private sector needs, and shift R&D spending away from tax incentives toward direct grants
- Renewal of the Urban Aboriginal Strategy
- Change immigrant selection by:
  - Strengthening the assessment of educational credentials
  - Reform the skilled worker point system to favour younger workers with Canadian experience and better language skills
- More emphasis on trade ties with emerging economies
- Creation of Canada's first near-urban park in the Rouge Valley

Quicker Path to Balance Than Ontario

The Government is on track to return to balanced budgets over the medium term

Budgetary Balance After Economic Action Plan 2012 Measures



Source: Department of Finance.