Ontario Finance Minister Dwight Duncan tables "most significant budget in government's history"

Today, Finance Minister Dwight Duncan tabled the McGuinty government's ninth budget and its first since returning with a minority government in the Ontario Legislature. The fundamental difference between this budget and all previous McGuinty government budgets is that the opposition is able to defeat it and force an election if they so choose. Moreover, the budget comes at a time when the focus has shifted to one in which the Ontario government, like government's around the world, is forced to confront the reality of mounting deficits and slow economic growth.

"The choices we are making are the right choices to meet today's challenges. They are fair, responsible and ensure that all of us have a role to play in overcoming these challenges…to build a stronger, brighter future for Ontario."

-Ontario Finance Minister Dwight Duncan

Budget Highlights

1. Recommits to a balanced budget by 2017-2018
2. $17.7 billion in spending restraint over three years, with an average growth rate for program spending of 1%
3. Cuts planned in infrastructure spending by $3 billion over six-years, resulting in modest savings in borrowing costs
4. $4 billion in revenue measures, including freezing the corporate tax rate at 11.5 per cent
5. Continued expectations for wage restraint in the public and broader public sector
6. Public-sector pensions to be 'reduced' going forward
7. Modest growth in government's priority areas of healthcare and education

Tackling the deficit

Premier Dalton McGuinty and Finance Minister Dwight Duncan have made tackling the deficit their number one priority. To ensure "buy in" from the general public, they expended a great deal of their political capital on pre-conditioning

"Right now, the single most important step the Ontario government can take to grow the economy is to balance the budget."
- Finance Minister Dwight Duncan

the public as to the extent of the problem. Don Drummond laid the problem out in stark terms in his report on the reform of the Ontario Public Service, by stating that if the government does nothing, then the deficit would balloon to $30 billion by 2017.

Drummond's Commission on the Reform of Ontario's Public Services laid down a path to getting to a balanced budget by 2017 – but only if the government followed *all* of the report's recommendations. The budget today made clear that the government was not about to deal away many of its signature policies (i.e. 30 per cent tuition rebate, full-day kindergarten) in order to expedite a deficit reduction plan. In spite of the fact that the government, in rejecting a number of key recommendations, would create additional fiscal pressures that would need to be met, Duncan expressed confidence that the government was on track to eliminate the province's deficit by 2017-2018.

	2012-13	2013-14	2014-15	3-Year Impact
EXPENSE MEASURES				
Expense Management Measures	(1.0)	(1.7)	(2.2)	(4.9)
Compensation Restraint	(0.9)	(2.1)	(3.0)	(6.0)
Cost Avoidance	(0.1)	(1.5)	(5.2)	(6.8)
Total Expense Measures	**(2.0)**	**(5.3)**	**(10.4)**	**(17.7)**
REVENUE MEASURES				
Freeze the Corporate Income Tax Rate at 11.5 per cent, If Passed.	0.1	0.5	0.8	1.5
Freeze Business Education Tax Reduction	0.1	0.2	0.3	0.6
Modernize the Ontarlo Lottery and Gaming Corporation	(0.1)	0.2	0.5	0.6
Optimize Liquor Control Board of Ontario Revenue Potential	-	-	0.1	0.1
Enhance Revenue Integrity and Other Measures	0.1	0.3	0.5	1.0
Fee Changes to Move Closer to Full Cost Recovery	0.1	0.2	0.4	0.6
Total Revenue Measures	**0.3**	**1.4**	**2.7**	**4.4**
Total Direct Impact of Fiscal Actions	2.3	6.7	13.1	22.1
Interest on Debt Expense Avoided	0.1	0.3	0.8	1.1
Ratio of Expense Measures to Revenue Measures				**4:1**

To pull off this feat, the government has laid out a plan to reduce the overall rate of spending growth to an average of 1 per cent over the next three years (although this is

front-end loaded with 2.4 per cent total growth this year). Measures taken to achieve this goal will reduce the annual rate of growth in healthcare to 2.1 per cent over three years.

The government has also committed to scaling back some of its infrastructure commitments, although by a much smaller degree than had been anticipated. The $3 billion reduction in infrastructure spending (over a six-year period) – including cancellation of just four major hospital projects, for a savings of $570 million in *borrowing* – does not represent a huge reduction and, in fact, will bring in relatively modest budgetary savings over the next few years. Other measures included a further reduction in the size of the public service (1,500 FTEs to be eliminated by 2014, on top of previous year reductions), continued expectation for wage restraint by bargained public servants,and those employed in the broader public sector, as well as changes to future pension benefits. The budget also states that there are no plans for an increase in social assistance rates.

For every four dollars in spending cuts, the budget proposes one dollar in revenue measures. Among these was the expected cancellation of future corporate tax cuts, with the current rate now frozen at 11.5 per cent, as well as revenues to come from the "modernization" of gaming services (which will include a reduction in the $345 million paid annually in horse racing subsidies).

Health Care

Don Drummond pointed out that 42 per cent of program spending in the 2011-12 fiscal year was on health care. About a quarter of his recommendations focused on health and he made it clear that no credible effort to address a provincial deficit can ignore the Ministry of Health and Long-Term Care.

The budget continued to focus on the three key themes laid out by the Ontario Government in its *Action Plan for Health Care*:

- shift investments where they have the greatest value
- prevent illness and focus on health promotion
- provide better access to primary care, homecare and community care

As with the *Action Plan on Health*, the budget document is light on implementation details and plan on how to actually make system change remain vague.

Growth in health care spending will slow to an average of 2.1 per cent over the next three years (2.3 per cent this year). As part of the strategy, hospital base operating funding will be frozen in 2012-2013 which, coupled with recently announced changes to the methodology governing hospital funding allocations, will represent a significant challenge for the sector. The government, through its *Action Plan*, has pinned its hopes on managing this pressure on hospitals through further health system transformation,

with an emphasis on home and community care, as well as further integration of primary health care.

The budget forecasts that total physician compensation would be frozen at the current level of $11 billion, in spite of the fact the negotiations with the Ontario Medical Association have only just begun. Even while the government proposes to flat line physician spending, it is proposing to enhance access to primary care services (which could involve other primary care providers, beyond physicians) by expanding same-day and next-day appointments and after-hours care.

The government will increase investments in home care and community services by an average of four per cent annually for the next three years, totaling $526 million annually by 2014-15. The government has also committed to developing a senior's strategy and will move forward with the Healthy Home Renovations Tax Credit. Overall long-term care funding will increase by 2.8 per cent in 2012-13.

The government continues its changes to the drug system in Ontario by having high income seniors paying an income-tested deductible. For single seniors who earn over $100,000, the deductible amount will be $100 plus three per cent of income over $100,000. For high-income senior couples who have an income of over $160,000, the new deductible will be $200 plus three per cent of income over $160,000. This change will impact about 5 per cent of Ontario's seniors. Based on the budget, this will only save about $50 million a year from the province's drug budget.

Infrastructure Funding (Capital Expenditures)

While the government has already announced its intention to delay or scrap certain capital projects, the budget is positioned as "preserving a high level of infrastructure investment". The government will delay or cancel $900 million in infrastructure investments, resulting in reduced borrowing rather than cost savings. While the government will avoid borrowing an average of $300 million each year to fund the projects, fiscal savings will amount to only $40 million annually, on average, over the next three years. The budget also notes that, over a longer-term period (six years), the total reduction in borrowing for new infrastructure will be $3 billion.

The impact of overall reductions on the government's fiscal situation is negligible. The Capital Restraint Measures introduced in the budget will see four hospital projects cancelled and two projects "re-scoped". These measures account for $570 million of the forecasted reduction in borrowing in the immediate term.

Also of note is the fact that unallocated capital funding for schools is reduced, to safeguard funding for announced postsecondary expansion projects and other key items. Investments related to the 2015 Pan-Am Games are also protected from spending reductions.

Other Measures

The government proposes to cap the Ontario Clean Energy Benefit (OCEB) at 3,000 kWh per month, continuing the program's 10 per cent benefit on the first 3,000 kWh used each month.

The government has affirmed its commitment to education at all levels. Full-day kindergarten will be implemented across the province by September 2014. The budget also supports the government's commitment to the 30 per cent Ontario tuition grant. This program will be paid for by eliminating several other grant programs and phasing out the Queen Elizabeth II Scholarship fund.

The government will continue to build on advice from the Commission on the Review of Social Assistance in Ontario, including opportunities to integrate the Ontario Disability Support Program and Employment Works with Employment Ontario. Housing supports that exist as part of social assistance will be removed and delivered as part of the Long-Term Affordable Housing Strategy. No increases to social assistance rates are being proposed and increases to the Ontario Child Benefit will be slower than initially planned.

A Budget to Rule… or a Budget to Run on?

Much of today's budget did not come as a surprise. Changes in pensions as well as the modernization of the public service had been previously telegraphed. As such, Tim Hudak and the Progressive Conservative Party will likely not be supporting this budget. With their focus being job creation for Ontarians and reducing the size of the government overall, it would have been unlikely that anything the government did would have been enough.

Premier McGuinty called NDP leader Andrea Horwath last week to discuss the budget and to keep the lines of communication open. The suggestion to freeze Ontario's business tax at 11.5 per cent may be the olive branch necessary to stave off a snap election at this time. However, insiders believe that it is not a forgone conclusion that Ms. Horwath will support this budget and she will likely do so while positioning herself as the steady hand of leadership and government.

For all the hype leading up to a budget supposed to contain major changes, the budget delivered today did not deliver any measures that would make this a truly transformative budget. While political parties may bicker, there is no poison pill that should cause an election in Ontario. The real test may not come around the budget but in how the government goes about implementing the changes that the budget necessitates.