2019-20 Pre-Budget Submission

Ontario Select Standing Committee on Finance and Government Services

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About the Canadian Taxpayers Federation

The Canadian Taxpayers Federation (CTF) is a federally incorporated, not-for-profit citizen's group dedicated to lower taxes, less waste and accountable government. The CTF was founded in Saskatchewan in 1990 when the Association of Saskatchewan Taxpayers and the Resolution One Association of Alberta joined forces to create a national taxpayers' organization. Today, the CTF has 141,000 supporters nation-wide.

The CTF maintains a federal office in Ottawa and regional offices in British Columbia, Alberta, Prairie (SK and MB), Ontario, Quebec and Atlantic Canada. Regional offices conduct research and advocacy activities specific to their provinces in addition to acting as regional organizers of Canada-wide initiatives.

CTF offices field hundreds of media interviews each month, hold press conferences and issue regular news releases, commentaries, online postings and publications to advocate on behalf of CTF supporters. CTF representatives speak at functions, make presentations to government, meet with politicians, and organize petition drives, events and campaigns to mobilize citizens to affect public policy change. Each week CTF offices send out Let's Talk Taxes commentaries to more than 800 media outlets and personalities across Canada.

Any Canadian taxpayer committed to the CTF's mission is welcome to join at no cost and receive issue and Action Updates. Financial supporters can additionally receive the CTF's flagship publication The Taxpayer magazine published four times a year.

The CTF is independent of any institutional or partisan affiliations. All CTF staff, board and representatives are prohibited from holding a membership in any political party. In 2017-18 the CTF raised $5.1 million on the strength of 31,205 donations. Donations to the CTF are not deductible as a charitable contribution.

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PART I: INTRODUCTION

June of 2019 will mark the first full year of a new government in Ontario and it’s a government that made a promise to “end the party with taxpayer money.” This is a promise that resonated with the over-taxed people of the province and it is a promise that we at the Canadian Taxpayers Federation believe needs to be kept.

That’s why we will hold this new government accountable and ensuring that real action is being taken to make this promise a reality in Ontario.

After years of fiscal mismanagement, it’s time to get Ontario back on track. Some positive strides have been made in the last seven months, with the repeal of the cap-and-trade carbon tax, the court challenge of the Trudeau carbon tax, and the tax changes for low income workers.
But there is still a lot of work to be done.

This year’s report recommends that the government balance the budget before the next election, reduce obvious spending waste, boost revenue and move ahead with promised tax cuts. We also recommend a number of concrete actions that should be taken to improve government transparency and accountability.

It’s time to make Ontario an affordable place to live, work and play, to restore trust in government, and to bring business back to what was once Canada’s economic engine.

PART II: SUMMARY OF RECOMMENDATIONS

Balance the Budget and Pay Down Debt

We recommend that the government develop a realistic plan for balancing the budget by or before 2022, that is long term and sustainable. In order to achieve this, we recommend the government implement real spending restraint.

We recommend a legislated debt reduction calendar to ensure the government begins addressing the massive debt that has been accumulated.

Reduce Spending and Eliminate Waste

Reduce Spending

We recommend that program spending be reduced until the government is able to achieve a balanced budget, at which point any program spending growth should be at or below the combined rate of inflation and population growth.

Program Reform and Waste Elimination

We recommend the government stop all forms of corporate welfare to stop the government from distorting the market by picking winners and losers and save taxpayers money.

We recommend the government make changes to the Ontario Student Assistance Program (OSAP) funding model to ensure that only students with demonstrated financial need receive funding and that the funding model is weighted towards repayable loans rather than non-repayable grants.

We recommend the government ensure fraud investigations in Ontario Works are completed in a timely manner and that funding is only provided when eligibility standards are clearly met. We also recommend that the government conduct a further review of this program to ensure it focuses on moving recipients off the program and towards full time employment.

We recommend that every department have its advertising budget reduced significantly, to 2014-15 levels or lower. We also recommend the restoration of the auditor general's power to review advertisements for partisan content.

We recommend the government cancel existing renewable energy contracts under the Feed-In-Tariff program, which would reduce residential electricity bills by about 24 per cent.

Reduce the Cost and Size of Ontario's Bureaucracy

We recommend that the government continue the existing hiring freeze and encourage voluntary resignation among bureaucrats in order to reduce the size of Ontario's swollen bureaucracy.
We recommend that government examine the potential for automation and artificial intelligence to replace bureaucratic work where possible and realize cost savings.

We recommend that the government implement an across the board wage freeze in future contract negotiations with the bureaucracy until the budget is balanced, following which wages shall increase at a rate no greater than the rate of inflation.

Increase Revenue Opportunities

We recommend breaking the government monopoly on alcohol sales by allowing alcohol sales in private retail stores. We also recommend breaking up the LCBO and selling the agencies' capital assets, and applying the revenue towards the government's debt.

We recommend the government make restoring lost tobacco tax revenue a priority and strike a new deal with tobacco manufacturers on native reserves to promote economic development and legitimize markets. The government should also revisit the quantity of tobacco allocated on reserves.

Move Ahead With Promised Tax Cuts

We recommend the Ford government introduce legislation to keep its promise to reduce the provincial excise tax to ensure Ontarians continue to benefit from low gas prices.

Tax Cuts for Minimum Wage Workers

We recommend the government balance the $495 million in tax cuts for minimum wage workers with spending reductions to ensure there is a path to a balanced budget.

Tax Relief for Small Businesses

We recommend the government introduce legislation to ensure Ontario does not paralleled federal tax increases on small businesses.

We also recommend the government keep its promise to reduce small business tax rate by 8.7 per cent and that it balance this tax cut with spending reductions.

Middle Class Tax Cut

We would like the government to reaffirm its campaign commitment to reduce middle class taxes by 20 per cent in 2021, and to ensure that they balance this $2.26-billion tax cut with corresponding spending reductions.

Improve Transparency and Accountability

We recommend the government restore the discretionary powers to the auditor general to determine what government advertisements are partisan, including digital advertisements, and to block taxpayer money from paying for such advertisements.

We recommend the government table legislation that allows citizens to force by-elections, allows citizens to initiate a referendum to repeal, amend or propose legislation, and apply this recall legislation at the municipal level.

We recommend that the government repeal its unconstitutional gag laws contained in provisions of the *Election Finances Act* that place limits on political speech in the pre-campaign period.

We recommend the government amend the *Legislature of Ontario Act* to restrict how money allocated to caucus services can be spent so that spending on partisan advertising is no longer permitted.

PART III: BALANCE THE BUDGET BY 2022 AND PAY DOWN DEBT

Balance the Budget before the next election

The spring budget must, by law, include a timeline for a balanced budget. And for practical reasons, that timeline should show balance by 2022, before the next provincial election.

The provincial government must not model its plan for balance on what the federal government has done. Planning on balancing the budget many years after the next election (2040 in the case of the federal government) is not a real plan for balance.

The current government has absolutely no ability to control what happens after 2022 and planning to keep a promise after the next election is akin to breaking that promise. The Progressive Conservative party was the only party during the last campaign that spoke about the importance of balancing the budget and imposing fiscal restraint and there is no guarantee it will get a second mandate. If the other parties have no interest in balancing the budget, it is up to the current PC government to achieve that balance now, while it has the chance.

Action is needed quickly. The fall fiscal update showed that the government reduced program spending by $3.2 billion between August and November of 2018, but that the deficit was reduced by only $500 million. This is because while the government cut spending, they also cut the carbon tax, which reduced revenue. Eliminating the carbon tax was the right thing to do, but the government must cut spending at a much faster pace if they plan on pursuing more tax cuts.

More needs to be done and quickly. The pace of deficit reduction to date has been too slow, because a future dip in the economy would make Ontario's financial problems much worse. The province's credit rating was downgraded following the fall economic statement. This can be changed if the government can demonstrate in the spring budget that it is taking fiscal reform seriously and show a demonstrated improvement to the province's books.

We recommend that the government develop a realistic plan for balancing the budget by or before 2022, that is long term and sustainable. In order to achieve this, we recommend the government implement real spending restraint.

Legislated Debt Repayment

Ontario is still the most indebted province in Canada and the most indebted sub-national government in the world. The province's projected net debt for 2018-19 is $347 billion.

The current forecast is that the government will pay $12.5 billion in debt interest this year, which works out to about $1.4 million every hour, or $876per person. This is money that could have been better served on programs Ontarians value, on reducing debt, or on tax relief for struggling families.

The province has reported deficits in 24 of the last 29 years, and over that period net debt grew by close to one-third of a trillion dollars. This year alone, the government is adding $33.2 billion to the current mountain of debt.

Government debt poses serious economic problems. In the long term, high levels of government debt hinder economic growth. In the short term, high debt requires increasing amounts of government revenues be devoted to paying interest on debt instead of services taxpayers value more, such as paying for doctors, schools, roads and bridges.

The projected $347 billion mountain of debt will eventually be passed on to the next generation of taxpayers. Our children and grandchildren will be forced to pay for our big government and big waste. They will pay higher taxes and live with fewer resources thanks to our choices. This is irresponsible and unfair, and a shameful way to run a province.

We recommend a legislated debt reduction calendar to ensure the government begins addressing the massive debt that has been accumulated.

PART IV: REDUCE SPENDING AND ELIMINATE WASTE

Reduce Spending

Given the scale of Ontario's debt problem, spending restraint must be a priority. The government cannot keep spending flat and rely on revenue increasing in order to achieve a balanced budget.

The government did reduce spending growth by $3.2 billion in the fall economic statement, by canceling several election-year spending promises that had been made by the previous Wynne government. But even with that cancellation, spending growth is forecast to increase by 4.8 per cent from 2017-18 levels. This is higher than what's needed to offset population growth and inflation (4.3 per cent) and higher than the nominal rate of economic growth (3.8 per cent).

This 4.8 per cent growth rate is also faster than the rate of spending growth in the last three years of the Wynne government (4.4 per cent on average). While it is slightly lower than the rate of Wynne's final year, that was an election year where the outgoing government spent everything it could before losing power.

Certainly, a premier that tells us "the party with taxpayer money is over" can do better than keeping pace with the spend-happy Wynne government. According to the Fraser Institute, a nominal total spending freeze would mean annual reductions in inflation-adjusted per-person spending of approximately three per cent and would balance the budget by next year.

We recommend that program spending be reduced until the government is able to achieve a balanced budget, at which point any program spending growth should be at or below the combined rate of inflation and population growth.

Program Reform and Eliminate Waste

Spending restraint can be achieved in part by reforming program spending that isn't working well and eliminating waste.

Corporate Welfare

The government committed in its election platform to end corporate welfare. Yet in November, the premier announced the government is giving $34.5 million in taxpayer-funded corporate welfare to Maple Leaf Foods for a chicken processing plant in London. The company is profitable, there seems little rationale for the handout, and the new plant is actually resulting in the closing of two other plants for a total net loss of about 300 jobs.

The government's new greenhouse gas reduction plan is an exercise in corporate welfare. It includes hundreds of millions in taxpayer subsidies. The Ontario Carbon Trust will use $400 million in taxpayer money to pay companies to reduce their emissions.

The government needs to keep its promise to end corporate welfare – including green corporate welfare – and stop the practice of handing out taxpayer money to private businesses.

We recommend the government stop all forms of corporate welfare to stop the government from distorting the market by picking winners and losers and save taxpayers money.

Ontario Student Assistance Program

This year's auditor general report outlines serious problems with the Ontario Student Assistance Program (OSAP). The so-called free (read: funded by taxes) tuition program is costing 50 per cent more than the Wynne government projected and will soon cost $2 billion per year. It is not shocking that giving away money has ended up being expensive. But perhaps more surprising is that there is little evidence that all this money is actually achieving the goal of helping low-income families.

The auditor general found that many of the students getting money under the new so-called free tuition program were already attending college or university which means they're already finding ways to cover the costs. In other words, they didn't need the so-called free money. The program also does not appear to get more students into classrooms with university enrolment increasing only by 1 per cent.

Two billion per year is just too much for a government facing a deficit the size of Ontario's, especially when that money isn't achieving what it's supposed to. This program needs to be at the top of the Ford government's list for review and reform.

We recommend the government make changes to the OSAP funding model to ensure that only students with demonstrated financial need receive funding and that the funding model is weighted towards repayable loans rather than non-repayable grants.

Ontario Works

The problems at Ontario Works are costing taxpayers even more. The cost of welfare has ballooned by 55 per cent since 2009 and now costs taxpayers nearly $3 billion last year. As with OSAP, the government isn't tracking Ontario Works to make sure it is only funding eligible recipients. The government is owed $730 million in overpayments and doesn't know why.

One reason is obvious: the government is a year behind in investigating 6,000 fraud tips. Last year, 25 per cent of fraud investigations found there were overpayments and 10 per cent of investigations ended with welfare recipients losing the benefits they were not eligible for. Timely fraud investigations will stop and recoup some of this waste.

Worse still, the program isn't getting people back to work. The length of time people are staying on welfare has doubled since 2009, so that now people stay on the program for nearly 3 years. One in five people stay on welfare for five years or more. Last year the percentage of welfare recipients who found employment was just 10 to 13 per cent.

The government has already undertaken some changes to the Ontario Works program that are designed to get people off welfare and back to work. The government needs to consider the auditor general's recommendations for further changes. It's simply not acceptable that many of the same issues in the auditor general's 2009 audit are still present today.

We recommend the government ensure fraud investigations in Ontario Works are completed in a timely manner and that funding is only provided when eligibility standards are clearly met. We also recommend that the government conduct a further review of this program to ensure it focuses on moving recipients off the program and towards full time employment.

Government Advertising

In 2017-18 the government spent $62.6 million on advertising, the highest since 2006-07. The cost of government advertising has doubled since 2014-15. The auditor general found that over 30 per cent of that advertising should be considered partisan.

The government advertising budget should be cut down dramatically. Government advertising is largely unnecessary and should be limited to crucial information (for example, information about disease control). Too often, government use advertising as a way of self-promoting at taxpayer expense.

We recommend that every department have its advertising budget reduced significantly, to 2014-15 levels or lower. We also recommend the restoration of the auditor general's power to review advertisements for partisan content.

Hydro Reform

The Ford government rightly scrapped the *Green Energy Act* which since 2009 has driven up electricity rates across the province with long term above market rate contracts for renewable power. Ending the *Green Energy Act* was the right move and it will mitigate future price increases.

But the government needs more substantive reforms to reduce current prices. And further reform is required to bring improved fairness to the electricity system.

One option is for the government to cancel additional Feed-In-Tariff subsidies, which would reduce the Global Adjustment. The FIT contracts provided long term price guarantees of above-market rates to generators of renewable energy. To pay for these contracts, the government developed the

Global Adjustment. The GA is an additional charge to ratepayers to make up the difference between market rates and the rate the government contracted with generators.

About 40 per cent of the Global Adjustment is currently going to renewable energy generators, even though renewables only make up about 7 per cent of Ontario's power. What's most shocking is that most of the revenue earned from renewable generators is not from the sale of actual power, but from the Global Adjustment subsidy. The Fraser Institute found that 90 per cent of the revenue earned by renewable generators is from the GA subsidy. This is on the backs of Ontario ratepayers, and as a result of the Wynne fair hydro plan, it was put on the backs of future ratepayers as well.

To date, the premier has stopped renewable developments that have not yet been completed. But now it is the time to get out of existing contracts. The government must move carefully in order to avoid costly litigation, but it is possible. The government can use legislation to change or cancel legally binding agreements as long as it acts within its constitutional jurisdiction and uses unambiguous statutory language.

We recommend the government cancel existing renewable energy contracts under the Feed-In-Tariff program which would reduce residential electricity bills by about 24 per cent.

Reduce the Cost and Size of Ontario's Bureaucracy

Reduce the total number of government bureaucrats

Upon forming government in June, one of the first acts of the new government was to implement a hiring freeze. This was something we had called for in last year's pre-budget submission.

We were pleased to see this action. The Ontario bureaucracy has grown dramatically in the past 20 years, and halting this growth is an important first step. In last year's pre-budget report we noted that since 1997 the number of government employees has grown by 403,100, or 43.1 per cent. In contrast, the private sector and self-employed sector have grown since 1997 by 1,444,000 employees, or 32.5 per cent.

We were also pleased to see that the government is now taking further action to not just freeze the size of the bureaucracy, but to shrink it by offering buy out packages to non-unionized government bureaucrats who quit voluntarily. Buy out packages already exist for unionized employees and have since 2013. We recommend that the government circulate information about these packages widely within the bureaucracy and encourage voluntary resignation as much as possible.

We also recommend the government look closely at where automation of work is possible. Many government clerks who do predictable, rule based and mechanical work can be replaced with automation and artificial intelligence.

Last year a report coauthored by Oxford professors and Deloitte UK found that about a quarter of bureaucrats in the UK are employed in administrative and operative roles with high potential for automation. They estimated that in the UK some 861,000 such jobs could be eliminated by 2030, creating 17 billion pounds in savings.

Another report by Reform, a London based think tank, found that using existing automation technology, 132,000 bureaucrat jobs could be automated in the next 10 to 15 years.

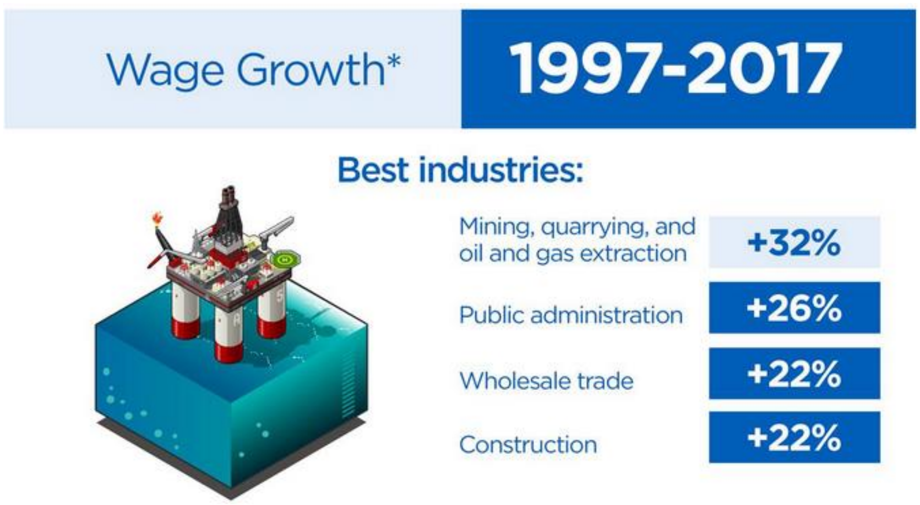
The Ontario government must look seriously at this potential. Done well, automation and AI could both improve service and result in large scale cost savings. However, given the failure of many governments to implement technological changes, we strongly recommend the government make no attempt to develop their own technologies and rather contract with outside experts.

We recommend that the government continue the existing hiring freeze and encourage voluntary resignation among bureaucrats in order to reduce the size of Ontario's swollen bureaucracy.

We recommend that government examine the potential for automation and artificial intelligence to replace bureaucratic work where possible and realize cost savings.

Reduce the cost of government bureaucrats

Government employees in Canada have seen an average of over 26 per cent wage growth between 1997 and 2017, second only to those in the mining industry. Booming commodity prices easily explain the rise in wages for the resource sector, but there is no such rational for soaring government compensation.



Source: Statistics Canada – Global News

In Ontario, the number of employees on the Sunshine List grew by nearly 7 per cent last year, and there are now 131,741 government employees earning over $100,000 per year. This growth is above population growth and inflation and it doesn't even include the thousands of employees at Hydro One who used to be subject to Sunshine List disclosure.

The Fraser Institute has found that government employees are paid an average of nearly 11 per cent more than private sector workers for similar work, in addition to non-wage benefits. Wages and salaries for government employees are the biggest single area of expenditure for any provincial government. So decisions about government employee wages can make a big difference in the budget.

In August, the Ontario government announced that it would be freezing the salaries of executives within the bureaucracy, a move we called for in last year's pre-budget submissions. However, there have been complaints within the public service that while executive compensation is frozen, lower level bureaucrats will continue to get negotiated raises. The simple solution to this disparity is to implement an across the board wage freeze for all government bureaucrats until the budget is balanced. Once balance is restored, wage increases should not outpace inflation for that year.

We recommend that the government implement an across the board wage freeze in future contract negotiations with the bureaucracy until the budget is balanced, following which wages shall increase at a rate no greater than the rate of inflation.

PART V: INCREASE GOVERNMENT REVENUE

Allow Private Liquor Sales and Sell Off Surplus Assets at the LCBO

The Ontario government has a stranglehold over liquor distribution in Ontario in the form of the LCBO. Government should stick to sectors where there is a perceived market shortfall rather than monopolizing a highly lucrative industry with absurd and contradictory policies.

Ontario's puritanical alcohol rules mean that Ontario residents are stuck with inconvenient locations, poor selection, higher prices, and restrictive store hours.

In the fall economic statement, the government announced it is expanding hours for the LCBO and it is opening a public consultation until February on the expansion of liquor sales outside of the LCBO.

This is the right direction to go. It will result in an improved consumer experience, more accessibility, realize cost savings, and allow for sales to boost revenue.

The government monopoly on the sale of alcohol will be broken up and allowing private sales will reduce the need for government owned stores. The current government monopoly ownership of the LCBO means the stores are subject to the high salaries and labour strife that plague public sector unions in Ontario. In 2015, there were 332 LCBO employees on the Sunshine List, earning over $100,000.

Alberta privatized liquor sales in 1993, as a result enjoys the widest selection and greatest availability of alcohol products anywhere in Canada. Saskatchewan has also announced they will be allowing private sales as well.

A 2014 study by the C.D. Howe Institute made the case that Ontario could lower alcohol prices through more competition, while at the same time bringing in more revenue. Researchers found that provinces with more competition, such as B.C. and Alberta, brought in about 7 per cent more per capita than provinces with government-run monopolies.

The LCBO is a revenue generating asset, but this does not mean that it is an asset that is best managed by the government. If the LBCO monopoly is broken up, the need for government stores will be reduced. Surplus stores can be sold and the revenue applied towards reducing the deficit. Increased tax revenue generated by a new private liquor business will also contribute to deficit elimination.

We recommend breaking the government monopoly on alcohol sales by allowing alcohol sales in private retail stores. We also recommend breaking up the LCBO and selling the agencies' capital assets and applying the revenue towards the government's debt.

Contraband Tobacco

The contraband tobacco trade in Canada is one of the most serious public policy concerns in the country, and yet, the issue is rarely discussed.

The overall contraband tobacco trade in Ontario cost between $832.6 million and $1.22 billion in lost tax revenue in 2014-15.

The CTF has studied the issue of contraband tobacco. In our 2016 report How Much is Contraband Tobacco Costing Taxpayers In Ontario, we illustrated the correlation between tax rates and illegal activity. In 1994, the federal government lowered tobacco tax rates and RCMP seizures dropped by 93 per cent.

In our report, we found that changes to the allocation system could significantly curb the prevalence of contraband. If the contraband market were completely eliminated and buyers only purchased tobacco products through legitimate markets, it could boost government revenue by upwards of $1 billion per year.

We recommend the government make restoring lost tobacco tax revenue a priority and strike a new deal with tobacco manufacturers on native reserves to promote economic development and legitimize markets. The government should also revisit the quantity of tobacco allocated on reserves.

PART VI: MOVE AHEAD WITH PROMISED TAX CUTS

Government Must Balance Tax Cuts with Spending Reductions

During the June 2018 campaign, the PC party made a number of tax cut commitments. Those commitments were important promises to voters, and need to be implemented within the next three years.

They are also important to cash trapped Ontarians who saw numerous tax increases under the last government. It is time for some tax relief.

While implementing these tax cuts, the government must be mindful that they need to balance the cuts with spending reductions. A balanced budget cannot be achieved by reducing both revenue and spending. The spending reductions must outpace the revenue reductions.

Cut Gas Tax

Every May the CTF hosts the Gas Tax Honesty Day in cities across Canada, where we highlight exactly how much of the cost of gas is going towards taxes. In Ontario, the tax portion on gas is about 33 per cent.

Gas taxes are complex and layered. There are provincial per litre taxes, provincial sales taxes, federal excise tax, federal sales tax and in Ontario there was a carbon tax until recently. These taxes apply on top of one another. In Ontario last year, consumers paid $730.6 million in tax-on-tax alone. They paid over $8.8 billion in all combined gas taxes.

During the last campaign, Premier Ford committed to cutting gas prices by 10 cents per litre by eliminating the cap-and-trade carbon tax and by cutting the provincial excise tax.

The first promise has been kept – the Ford government killed the carbon tax as one of its first acts. But we are concerned that in light of lower gas prices, the Ford government may not pursue its other commitment to lower the excise tax.

Gas prices are currently quite low, with many stations selling below $1/litre. This is about 16 cents a litre less than prices were this time last year. About 4.3 cents per litre of this is because of the elimination of the carbon tax. The rest is because of global market issues, including an oversupply that will not likely last.

We recommend the Ford government introduce legislation to keep its promise to reduce the provincial excise tax to ensure Ontarians continue to benefit from low gas prices.

Other Tax Measures

Tax Cuts for Minimum Wage Workers

During the campaign, the PC party committed to cutting taxes for the middle class, to reducing small business taxes, and to eliminating provincial income tax for minimum wage workers.

Some progress has been made on some of these commitments. The Low-Income Individuals and Families tax credit came into effect this month. The LIFT credit will save a full time minimum wage worker $850 per year. This is good news, but the government must ensure that it balances the $495 million this tax will save taxpayers with corresponding savings through budget restraint.

We recommend the government balance the $495 million in tax cuts for minimum wage workers with spending reductions to ensure there is a path to a balanced budget.

Tax Relief for Small Businesses

During the campaign the premier also promised tax relief for small businesses. In the fall economic statement the government promised to introduce legislation to ensure that Ontario will not parallel federal tax increases related to passive income. This is more good news.

But we would also like to see action on the premier's campaign commitment to reduce the small business tax rate by 8.7 per cent.

We recommend the government introduce legislation to ensure Ontario does not paralleled federal tax increases on small businesses.

We also recommend the government keep its promise to reduce small business tax rate by 8.7 per cent and that they balance this tax cut with spending reductions.

Middle Class Tax Cut

Families in Ontario need tax relief and at CTF we were excited when during the campaign, the premier promised a 20 per cent middle class tax cut. This tax cut was promised during the third year of the government's mandate, but we have seen little conversation around this promise since it was made.

The commitment is expected to reduce government revenue by $2.26 billion per year and it would apply on earning between $42,960 and $85,923. The maximum savings would be $786 per year.

We would like the government to reaffirm its campaign commitment to reduce middle class taxes by 20 percent in 2021 and to ensure that it balances these $2.26 billion in tax cuts with corresponding spending reductions.

PART VII: TRANSPARENCY AND ACCOUNTABILITY

Restore Auditor General's Authority to Review Government Advertising

For a time, Ontario was an example to the rest of the country in government advertising. The landmark *Government Advertising Act*, the only law of its kind in Canada, gave the auditor general the final say on whether a government ad would make it onto the airwaves. Under this law, a government ad would be rejected if it used tax dollars to pay for a partisan message.

But in 2015, the government weakened the auditor general's authority to ensure that public money is not spent on partisan advertising.

In 2017-18 the government spent $62.6 million on advertising, the highest since 2006-07. The cost of government advertising has essentially doubled since 2014-15. The auditor general found that over 30 per cent of that advertising should be considered partisan.

We have already called for the government advertising budget to be cut dramatically in order to achieve savings for taxpayers. But the auditor general's power to examine government advertising must be restored. Indeed, the premier committed in his platform to "expand the auditor general's authority to include approval of government ads that Kathleen Wynne took away." It's time for the premier to keep this promise.

We also would like to see the auditor general's power not only restored, but also enhanced. The auditor general must also have the power to review digital advertising for partisan content.

Currently a loophole in the legislation means digital advertising is excluded from even the reduced scope of review if the ads are on social media sites or if they are purchased through a search marketing service such as Google AdWords. Last year, the government spent $7.6 million on digital ads that were excluded from the auditor general's review. This is a 60 per cent increase from the previous year. Clearly, as the public consumes more and more digital content, the government will rely more and more on digital advertising.

We recommend the government restore the discretionary powers to the auditor general to determine what government advertisements, including digital advertisements, are partisan and to block taxpayer money from paying for such advertisements.

Implement Recall Legislation

Last year, the Wynne government brought in a budget when the former premier had a popularity of 23 per cent. As low as that is, it's still almost double her worst recorded approval rating of 12 per cent.

The deeply unpopular former government continued to table legislation and went on a spending spree with taxpayer money in the months before it lost office. Even in the period when the premier's popularity was rock bottom, voters had limited recourse other than waiting until June 2018. Voters deserve better.

Recall legislation can improve government accountability and give citizens protection against politicians who take advantage of tax dollars, break promises or go against the will of the people.

Recall legislation exists around the world to remove politicians and legislation that goes against the wishes of voters. For example, the British Columbia *Recall and Initiative Act* empowers voters to initiate by-elections and propose laws. In the United State, 19 states plus the District of Columbia permit the recall of state officials. A further 29 states allow recall elections in local jurisdictions, and 24 states offer an avenue for citizens to propose a statute. And around the globe, there are 25 countries that have legal provisions to activate citizen led recall.

We recommend the government table legislation that allows citizens to force by-elections, allows citizens to initiate a referendum to repeal, amend or propose legislation, and apply this recall legislation at the municipal level.

Repeal New Election Gag Law

In 2016, Ontario broadened the definition of political advertising to *de facto* include any and all political speech. Any individual or organization in Ontario that spends more than $500 to publicize a position on an "issue that can reasonably be regarded as closely associated with a registered party or its leader" is now engaging in political advertising.

The legislation in both provinces requires any third party who engages in political advertising to register with the government, file an onerous report, and in Ontario, be subject to spending limits. And unlike the long-held restrictions on speech during the campaign period and upheld by the Supreme Court in *Harper v Canada*, these new Ontario requirements now apply six months before the call of the election. This year, they came into effect on Nov. 9, 2017. The election will not be until June 2018.

These are in effect gag laws, limiting the ability of individuals, groups, and essentially any "non-politician" entity to support or level criticism against the government, politicians or their parties.

The laws aimed at regulating the pre-campaign period are troubling, and violate rights of free expression guaranteed by the Charter. Almost identical (and indeed less onerous) restrictions on pre-campaign free expression were repeatedly found to be unconstitutional in British Columbia.

Members of the public ought to be free to engage in lively debate about public policy issues without having to register with the government and be subject to filing and audit requirements. This freedom is even more important in the months leading up to an election when matters of public policy are top of mind.

We recommend that the government repeal it unconstitutional gag laws contained in provisions of the *Election Finances Act* that place limits on political speech in the pre-campaign period.

Amend the Legislature of Ontario Act to Stop Partisan Advertising Funded by Legislature

This year, caucus services for the PC and NDP parties were allocated $13.7 million for salaries, services and communication budgets. This funding is permitted under the *Legislature of Ontario Act*, and the amounts are determined by the Board of Internal Economy.

The PCs used their taxpayer funded caucus services budget to fund their Ontario News Now social media sites, which are essentially pro-government videos created at taxpayer expense. Before the PCs held government, the Liberals similarly used their caucus services budget for similar partisan purposes. For example, Liberal caucus services printed and distributed partisan flyers promoting the government's so-called Fair Hydro Plan.

The rules around the budget at caucus services are not subject to freedom of information legislation and there is no accountability or transparency around how the money is spent. This needs to change.

We recommend the government amend the *Legislature of Ontario Act* to restrict how money allocated to caucus services can be spent so that spending on partisan advertising is no longer permitted.

Legislated Accounting Standards

Last year, the auditor general had to issue a qualified audit opinion on the Consolidated Financial Statements of the Province of Ontario, because the statements were not prepared following Canadian Public Sector Accounting Standards.

The auditor general is required by law to review the province's financial statements and issues a qualified opinion when she believes the statements are significantly misstated.

The new government has adopted the auditor general's accounting standards, which resulted in the determination that the province was left with a $15-billion deficit rather than the previous government's $6.7 billion forecast.

The use of acrobatic accounting in order to mislead the public about the province's financial condition is unethical and leads to poor policy choices. Without some standardization, future governments could revert to accounting standards that suit its agenda.

We recommend that the government pass legislation requiring all future financial statements comply with Canadian Public Sector Accounting Standards so that that future governments can no longer conceal the true state of the province's finances.