

Repairing Ontario's Finances

2022 Ontario Pre-Budget
Submission

Jay Goldberg
Ontario Director

CANADIAN TAXPAYERS FEDERATION



Canadian
Taxpayers
Federation

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 organization. Today, the CTF has over 235,000 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. 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.

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 three 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 2020-21 the CTF raised \$4.8 million on the strength of 39,799 donations. Donations to the CTF are not deductible as a charitable contribution.



Introduction

After fifteen years of deficit spending, Ontario is now the [most indebted](#) sub-national unit in the entire world. The province's debt is nearing half a trillion dollars. In the fall economic update [presented](#) by Finance Minister Peter Bethlenfalvy, the government indicated that Ontario faces several more years of double-digit deficits. With the province now spending over [\\$1 billion](#) per month on debt interest, now is the time for a serious re-examination of the province's priorities. Ontario faces a stark choice: restrain government spending or face the need to make drastic spending cuts or tax increases in the future.

The province arrived at this critical juncture because of years of financial mismanagement. First, it is important to state that the government of Ontario does not have a revenue problem. Over the past fifteen years, government revenue has increased by over 80 percent, even in the face of the 2008 recession and the COVID-19 pandemic. Revenue increased at an average rate of 5.4 per cent per year. With a balanced budget 15 years ago and strong revenue growth, Ontario should not be in such a dire fiscal situation.

Ontario has a spending problem. Under three successive governments, the province's spending problem has worsened. While revenue in the past 15 years increased by an average annual rate of 5.4 per cent, government spending increased at an average rate of 8.5 per cent, or 127 per cent in total. These numbers are not sustainable.

While some additional health care funding for vaccines, hospitals, and long-term care homes was warranted, Ontario had a spending problem well before the pandemic began. Some continued health-care spending related to the pandemic may be necessary, but the government's primary focus should be on cutting the deficit and balancing the budget.

This submission will offer the government a path to swiftly reduce the deficit. The core of our proposal is to reduce government spending across the board as a means of bringing the province's expenses more in line with its revenue. This submission will propose that each ministry return its spending to pre-pandemic levels, recorded in fiscal year 2019-20, except for health and long-term care. Doing so will save taxpayers nearly \$10.5 billion in the coming fiscal year alone. This decrease in spending is necessary to compensate for the 15 years of overspending the province has endured. Specific proposals are also included to encourage the government to find additional savings.

This submission will also call on the government to keep some of its core election commitments. Ontarians need tax relief. Nearly four years ago, Premier Doug Ford promised to deliver that relief. As part of this proposal, the CTF will call on the government to keep its election commitments, including lowering personal income taxes and gasoline excise taxes. The CTF is also proposing that the government eliminate the tax-on-tax Ontario drivers are forced to pay at the pumps. The tax reduction measures would save Ontario taxpayers roughly \$3.5 billion next year.

Finally, this submission will propose reforms to improve the province's spending habits and practices long-term. This includes a spending cap, restrictions on deficit spending, reducing the size of municipal governments, and allowing for recall elections to promote greater accountability.

The remainder of this pre-budget submission will be broken down into the following sections:

1. Ontario's 15-Year Spending Binge
2. Broad-Based Expenditure Reduction
3. Additional Savings
4. Lower Taxes
5. Accountability Reforms
6. More Transparency and Fiscal Discipline

SECTION 1

Ontario's 15-Year Spending Binge

Ontario has arrived at a critical moment in the province's history due to years of overspending. Looking at the numbers, it is quite clear that Ontario does not have a revenue problem. Revenue grew at an average annualized rate of 5.4 per cent during the fifteen-year period spanning 2005 to 2020. In 2005, Ontario had a balanced budget. Had successive Ontario governments simply kept spending in line with revenue growth, which has been a robust 5.4 per cent (Table A), the province would be in a surplus position today. Instead, Ontario finds itself with a \$21.5 billion deficit.

This proposal will call on the government to introduce broad-based spending cuts and limit future spending increases to below the rate of inflation plus population growth, at least until the budget is balanced. To present a counterfactual, had Ontario increased government spending by inflation plus population growth each year in the same 2005 to 2020 span examined previously, government spending today would sit at \$128 billion (Table B), rather than the \$190 billion spent by the government in the previous fiscal year. This means that 15 years of bloated budgets led to \$62 billion in overspending in fiscal year 2020-21 alone.¹ Total overspending across those same 15 years amounted to \$429 billion.

Rather than limiting government spending to the rate of inflation plus population growth, or even the rate of revenue growth, which was a robust 5.4 per cent on average, successive Ontario governments have increased spending dramatically. Between 2005 and 2020, Ontario's government spending increased at an average annualized rate of 8.5 per cent (Table C). These numbers are simply unsustainable and have placed the province in the extremely difficult financial position that it finds itself in today.

These stark numbers require serious action. Ontario is the [most indebted](#) sub-national unit in the entire world. The province finds itself in this position because of years of overspending. With revenue growth averaging at 5.4 per cent, which is far above the average annual rate of inflation plus population growth, Ontario's finances should be in good shape. Instead, successive governments have recklessly increased spending to unsustainable levels. The next section will therefore present a plan to get Ontario's finances back on track. It will call for spending reductions that will be mild in comparison to where spending levels would be today had governments from 2005 to 2020 simply increased spending at the rate of inflation plus population growth, or even simply revenue growth. In the second to next section, additional suggestions for finding further savings will be presented.

¹ Spending comparisons run up to 2020-21 because that is the last fiscal year for which the government has provided full and final spending figures.

TABLE A

Government Revenue (2005-2020)

Year	Revenue (Billions)	Percentage Change
2005-06	\$84,225	-
2006-07	\$90,397	+7.33%
2007-08	\$103,579	+14.58%
2008-09	\$96,933	-6.42%
2009-10	\$102,553	+5.80%
2010-11	\$113,594	+10.77%
2011-12	\$116,601	+2.65%
2012-13	\$120,319	+3.19%
2013-14	\$122,955	+2.19%
2014-15	\$126,152	+2.60%
2015-16	\$136,148	+7.92%
2016-17	\$140,734	+3.37%
2017-18	\$149,494	+6.22%
2018-19	\$153,700	+2.81%
2019-20	\$156,096	+1.56%
2020-21	\$151,813	-2.74%
Change, 2005-6 to 2020-1		+80.25%, average 5.35%

*See: Ontario Budget, 2021; Ontario Budget, 2018; Ontario Budget, 2010; Ontario Budget, 2008.

The table below uses government spending levels from 2005-06 as a base and calculates what government spending would have been in all subsequent years had spending growth been limited to inflation plus population growth.

TABLE B

Spending if limited to inflation plus population growth (2005-2020)

Year	Inflation	Population (Growth)	Alternate Spending
2005-06	Base	12,661,878	\$83,927
2006-07	2.74%	0.81%	\$86,906
2007-08	3.40%	0.93%	\$90,669
2008-09	-0.86%	0.89%	\$90,696
2009-10	1.92%	1.06%	\$93,399
2010-11	3.17%	0.96%	\$97,257
2011-12	1.16%	0.97%	\$99,328
2012-13	1.07%	0.90%	\$101,285
2013-14	2.03%	0.79%	\$104,141
2014-15	1.03%	0.66%	\$105,901
2015-16	1.34%	1.23%	\$108,623
2016-17	1.55%	1.40%	\$111,827
2017-18	2.22%	1.70%	\$116,211
2018-19	1.87%	1.65%	\$120,302
2019-20	0.51%	1.38%	\$122,575
2020-21	4.38%	0.55%	\$128,618

*Inflation: Statistics Canada; Population: Statistics Canada

The table below includes total government spending for each fiscal year in Ontario, beginning in 2005-06 and running through 2020-21. It then shows a percentage change, which is the increase in government spending compared to the previous year shown in percentage terms. Total overspending across a 15-year period, calculated by subtracting alternate government spending from actual government spending, amounted to \$429 billion.

TABLE C

Government Spending (2005-2020)

Year	Expenses	Percentage Change
2005-06	\$83,927	-
2006-07	\$88,128	+5.01%
2007-08	\$96,522	+9.52%
2008-09	\$97,317	+0.82%
2009-10	\$121,815	+25.17%
2010-11	\$127,605	+4.75%
2011-12	\$129,370	+1.38%
2012-13	\$129,536	+0.12%
2013-14	\$133,408	+2.99%
2014-15	\$136,467	+2.29%
2015-16	\$139,663	+2.34%
2016-17	\$141,725	+1.48%
2017-18	\$149,494	+5.48%
2018-19	\$161,135	+7.79%
2019-20	\$164,768	+2.25%
2020-21	\$190,281	+15.48%
Change, 2005-06 to 2020-21		+126.72% average 8.45%

TABLE D

Government Overspending (2005-2020)

Year	Actual Spending (Billions)	Alternate Spending (Billions)	Overspending (Billions)
2005-06	\$83,927	\$83,927	-
2006-07	\$88,128	\$86,906	\$1,222
2007-08	\$96,522	\$90,669	\$5,853
2008-09	\$97,317	\$90,696	\$6,621
2009-10	\$121,815	\$93,399	\$28,416
2010-11	\$127,605	\$97,257	\$30,348
2011-12	\$129,370	\$99,328	\$30,042
2012-13	\$129,536	\$101,285	\$28,251
2013-14	\$133,408	\$104,141	\$29,267
2014-15	\$136,467	\$105,901	\$30,566
2015-16	\$139,663	\$108,623	\$31,040
2016-17	\$141,725	\$111,827	\$29,898
2017-18	\$149,494	\$116,211	\$33,283
2018-19	\$161,135	\$120,302	\$40,833
2019-20	\$164,768	\$122,575	\$42,193
2020-21	\$190,281	\$128,618	\$61,663
Total			\$429,496

*See: Ontario Budget, 2021; Ontario Budget, 2018; Ontario Budget, 2010; Ontario Budget, 2008.

SECTION 2

Broad-Based Expenditure Reduction

To help compensate for more than 15 years of overspending, the CTF is calling on the government to reduce spending in all program areas, other than in the health sector, to pre-pandemic levels. This spending reduction strategy will generate \$10.5 billion in savings, which could make a major dent in the province's budget deficit. Given that government spending has increased by \$62 billion more than it should have, imposing spending reductions that represent less than 17 per cent of that gap is more than reasonable. Each ministry should determine where to find savings to return to pre-pandemic spending levels, but the government should look to employee compensation, which represents over [\\$46.5 billion](#) in annual spending, as one of the multiple tools to use to achieve the spending reduction targets outlined above. The proposed \$10.5 billion in savings is outlined on a sector-by-sector basis (as presented in the 2021 budget on page 163).

Recommendation: Reduce spending in all program sectors other than the health sector to pre-pandemic levels. This will generate \$10.5 billion in savings while still ensuring the government is able to meet its outlined needs in improving health and long-term care.

The government has [proposed](#) \$172.5 billion in program spending for fiscal year 2022-23. Returning spending to pre-pandemic levels, other than in the health sector, would produce \$10.5 billion worth of savings and lower overall program spending to \$162 billion. This should not preclude the government from looking for additional savings across all government sectors. Suggestions for finding additional savings are addressed in the next section of this proposal.

SECTION 3

Additional Savings

While broad-based baseline savings are important, additional avenues for saving can be found. This section of the proposal outlines eight key recommendations for savings, both in the long-term and the short-term. Savings ideas found here can be used to further reduce government spending or as methods to meet broad-based expenditure reduction goals.

The government can look to find additional savings through bringing government employee compensation in line with the private sector; reducing the size of cabinet; ministry consolidation; ending political welfare; pension reform; cuts to government advertising; and ending corporate welfare. Each of the savings proposals outlined below are fully achievable and necessary for the long-term sustainability of the province's finances.

COVID-19 has produced a tale of two pandemics. Those employed by the government saw few if any impacts on their wages, while hundreds of thousands of those in the private sector lost their jobs, faced reduced hours, or had their wages slashed. Bringing employee compensation, as well as employee benefits, in line with the private sector is far overdue. The disparity has been clearly exposed over the past eighteen months. The [10.3 per cent](#) public versus private sector wage gap must be closed. Wages should be frozen until this goal has been realized. Moreover, the government should work to adjust government employee pension structures to be more in line with pensions in the private sector.

Recommendation: Savings can be achieved in part by reducing employee compensation. In 2020-21, salaries and wages represented [\\$46.52 billion](#) of the provincial budget. In just one fiscal year alone, wages increased by \$1.94 billion, or 4.4 per cent. Rolling back those wage increases would go a long way in achieving savings goals.

Recommendation: After finding savings in employee compensation this year, Ontario's one per cent government employee wage increase cap should be reduced to a freeze. The freeze should be kept in place until government compensation is in line with the private sector. There is currently a [10.3 per cent](#) wage gap.

Recommendation: Tackle government employee pensions to bring them in line with pensions in the private sector. Contribution rates and ratios should be reflective of the reality faced by Ontarians not employed by the government. Government should shift away from the defined benefit pension model, which now covers [95 per cent](#) of government employees, and replace it with RRSP-style matching pension.

While Premier Ford pledged to be frugal in the 2018 election campaign, the size of government has grown. There are now more ministries and more seats at the cabinet table. The government should reverse course and make government more efficient and cost effective. There is no reason why the size of cabinet should be larger today than the day the Ford government assumed office. The government should go further still and see if the number of ministries can be consolidated below 2018 levels.

Recommendation: Consider finding savings through consolidating ministries. This could reduce overhead costs, the need for staffing, and promote more efficient government.

Recommendation: Reduce the size of cabinet. When the Ford government first took office, there were no associate ministries, and the executive council was composed of 21 members. Today, that number is 29, including five associate ministries. The government should revert to a cabinet size of 21 and eliminate associate ministries. Ministerial pay alone would save \$1.16 million. Lower staffing costs could also produce significant savings.

During the 2018 election campaign, Premier Ford rightly promised to eliminate political welfare. Instead, the government has increased its cost and even arranged a \$10 million payday advance for Ontario's four major political parties to be dispersed just weeks before the next election. The government should immediately move to end the per-vote subsidy.

Recommendation: End the per-vote subsidy for political parties, as promised by Premier Ford in 2018. Eliminating political welfare would produce [\\$13.7 million](#) in annual savings.

Government spending on advertising has increased dramatically since the last election. While some advertising is warranted and there are essential messages that need to get out to the public, nearly doubling Ontario's advertising budget in just one fiscal year – and prior to the pandemic – is unjustifiable. It's time for the government to significantly reduce the amount of taxpayer dollars spent on government advertising.

Recommendation: Significantly reduce government advertising, focusing only on essential messages to get to the public, such as health advisories. In fiscal year 2019-20, the government spent nearly [\\$38 million](#) on advertising, which was nearly double the advertising rate in 2018-19.

It is time for corporate welfare to finally end in the province of Ontario. While the Progressive Conservative Party criticized many of the McGuinty and Wynne governments' corporate handouts, the Ford government has been guilty of similar practices. Just over a year ago, nearly [\\$300 million](#) was given to Ford, a Fortune 500 Company, for factory renovations that the company had more than enough funds to pay for on its own. Similarly, two years ago the government gave [\\$55 million](#) to Maple Leaf Foods. Taxpayers do not want to see any additional taxpayer-funded handouts to profitable corporations. Attracting business investment in Ontario should come through lower taxes and a more competitive regulatory environment, not corporate welfare.

Recommendation: End corporate welfare once and for all.

SECTION 4

Lower Taxes

The Ford government ran for office by pledging to reduce the heavy tax burden faced by Ontario families. The government has made some progress in that direction through repealing the Wynne government's cap-and-trade carbon tax scheme. Nonetheless, there is much more work to do.

The first two recommendations on tax relief come directly from the Progressive Conservative platform of 2018. The CTF is calling on the Ford government to keep its commitment to reduce the second income tax bracket by 20 per cent and lower the gas tax by 5.7 cents per litre. Delivering on the PC Party's income tax pledge could save an Ontario taxpayer up to [\\$827 per year](#), while cutting the gas excise tax could allow a family filling up a minivan once a week to save [\\$200 per year](#). These measures were strong proposals when they were made during the 2018 election campaign and the government should keep those commitments. Combined, these proposals represent roughly \$3.2 billion in savings for taxpayers.

Recommendation: Reduce the second income tax bracket by 20 per cent, as promised in the 2018 Progressive Conservative Party platform, saving taxpayers [\\$2.26 billion](#).

Recommendation: Reduce the gas tax by 5.7 cents per litre, as promised in the 2018 Progressive Conservative Party platform, saving taxpayers [\\$939 million](#).

When Ontarians fill up at the pump, they are forced to pay sales tax on top of the other taxes they are already being charged. This tax-on-tax is unfair, and taxpayers in several other provinces do not face the same burden. Governments should never charge tax on another tax. The government should end the practice immediately. This proposal represents roughly [\\$380 million](#) in savings for taxpayers.

Recommendation: Stop taxing taxes when Ontarians fill up their gas tanks. Ontario is one of the few provinces that charges sales tax on top of other taxes, like excise taxes and the carbon tax. This should be repealed. Taxpayers could save up to \$380 million by repealing this measure.

SECTION 5

Accountability Reforms

While the government has made strides in improving accountability in the province in recent years, there is much more work to do. Soon after assuming office, the Ford government pushed for legislation to shrink the size of Toronto City Council. Doing so allowed for decreased costs and greater accountability, with fewer politicians able to push for their own pet projects. This meaningful reform made in Toronto should be extended elsewhere. Ottawa's city council, for example, is nearly as large as Toronto's, despite the fact that Toronto dwarfs Ottawa in terms of population. Other major towns and cities across the province could benefit from leaner and more accountable government. Building on its previous work, the government should consider reducing the size of city councils across the province.

Recommendation: Pass legislation to reduce the size of city councils across the province. The government has done so with Toronto, but should follow suit in cities like Ottawa, Mississauga, Hamilton, and others throughout the province. This will save taxpayers funds while also having fewer politicians able to pursue their own pet projects.

The government can also improve accountability at both the municipal and provincial levels by introducing recall legislation. This legislation should be designed to be similar to the recall legislation introduced by the Kenney government in Alberta. If politicians breach the public trust, voters should be able to hold them accountable. Recall legislation can be extremely effective even by just being on the books. British Columbia has had recall legislation for well over two decades but has only used it a handful of times. Knowing that the recall mechanism exists can encourage politicians not to break their promises to voters. Ontario should follow the lead of Alberta and British Columbia by pursuing recall legislation.

Recommendation: Pass recall legislation, applying at the provincial and municipal levels, so that voters can hold those politicians accountable who break their commitments. When politicians raise taxes, but ran for office promising not to do so, voters need to be able to hold them to account imminently, not years in the future. Such legislation will help discourage politicians from breaking their commitments to taxpayers.

There is far too much [overlap](#) in responsibilities between levels of government. For example, the province and municipalities are both responsible for helping to fund social housing. However, this overlap makes it more difficult to hold politicians accountable when public policy objectives are not met. The province should consider adjusting its relationship with municipalities to make the province fully responsible for some policy areas and municipalities for others. This will increase accountability and efficiency.

Recommendation: On far too many public policy fronts, multiple governments share the costs of paying for programs, obscuring accountability. In areas like public housing, costs are shared between municipalities and the province. In order to improve accountability, the province should clearly set out policy areas to be solely funded by either municipalities or the province. This can be done in a revenue-neutral manner.

SECTION 6

More Transparency and Fiscal Discipline

As has been outlined above, Ontario's finances have been badly mismanaged for nearly two decades, with the province now the [most indebted](#) subnational unit in the entire world. While it will be important to balance the budget, structural reforms are needed to ensure that politicians don't lose control over the province's finances in the future. To that end, four policy adjustments should be made.

The province should introduce legislation to require that the provincial budget be balanced outside of periods of once-in-a-lifetime events, like natural disasters. This legislation should also provide a concrete timetable for government to follow in order to return to balance.

Recommendation: Ontario has faced over 15 years of deficit spending. The government should introduce legislation that, once the budget is balanced, requires balanced budgets except during periods of once-in-a-lifetime crises.

The same legislation that stipulates that budgets must be balanced outside of once-in-a-lifetime crisis periods should also include provisions to prevent governments from increasing spending beyond inflation plus population growth. This will help ensure the out-of-control spending seen in Ontario over the past two decades is firmly put to rest.

Recommendation: After years of overspending by three successive governments, non-emergency spending cap legislation should be introduced. The legislation should ensure that annual program spending cannot increase by more than the combined growth rates of Ontario's population and inflation.

While balancing the provincial budget will be an important step, the government must go further in ensuring the province's debt begins to get paid back. Legislation should be introduced to require that, once the provincial budget is balanced, the same amount of funds dedicated to paying for debt interest be allocated toward debt repayment.

Recommendation: Ontario is the [most indebted](#) subnational unit in the entire world. To help improve this situation, the government should introduce a "debt repayment" line item in the provincial budget that requires the government, once the budget is balanced, to allocate the same amount of money to "debt repayment" as it does to paying debt interest.

More transparent budgeting is needed. Governments should be required to lay out spending plans for each ministry for a period of at least four years. Most Ontario budgets only present two-year forecasts for individual ministries. This change will allow Ontarians to better understand where government plans to allocate funding going forward and will permit taxpayers to enter into a discourse with the government about where priorities should lie.

Recommendation: Many items in government budgets, including ministerial spending estimates, are only included as a forecast for roughly two years. Going forward, the government should table spending estimates for all departments for at least four years. This will require governments to be more transparent about their budgeting.