

## ONTARIO ALTERNATIVE BUDGET 2006

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# We Can't Afford Poverty

## Ontario Alternative Budget 2006: Budget in Brief

### INTRODUCTION

The provincial budget tabled by Finance Minister Dwight Duncan on March 23, 2006 exposes three fundamental issues in the Liberal government's budgetary policy since its election in 2003.

First, and most important, it continues to ignore the personal financial crises faced by tens of thousands of Ontarians still trying to cope with vicious cuts in the programs they depend on for income security imposed in the late 1990s: social assistance, affordable housing, and child care. The government's budget response in all three areas has been totally inadequate.

Second, while it has moved to address some public service deficits — most notably in health, elementary and secondary education, post-secondary education, and, to a lesser extent, public infrastructure — it has utterly failed to address substantial deficits, most notably in local government finance and environmental

protection. Furthermore, where it has responded, the message has often been inconsistent.

Third, it persists in ignoring the apocryphal 400-pound gorilla in the corner of the fiscal room — the enduring legacy of the massive tax cuts in Ontario's fiscal capacity by the previous government between 1996 and 2001; tax cuts that Ontario cannot afford. Despite raising approximately \$2.5 billion in new revenue from the inappropriately named health premium, Ontario's fiscal capacity is nearly a year behind where it would have been if the tax cuts not been implemented. Rather than deal with this issue, the Premier has avoided the issue and mounted, instead, a quixotic and misleading campaign for more money from the federal government.

The Ontario Alternative Budget for 2006–7 serves as a direct counterpoint on all of these issues.

The overriding theme for this year's Alternative Budget is the urgent need to address the issue of poverty and income inequality in Ontario.

Poverty is not inevitable. It is the result of bad government policy. This year's OAB offers policy options which would make significant improvements not just to the lives of low-income people, but to the well-being and strength of our communities.

### INCOME SECURITY

Approximately 200,000 workers in Ontario earn minimum wage. And approximately 1.2 million workers earn less than \$10 an hour. Not surprisingly, women, workers of colour and recent immigrants are disproportionately earning poverty wages. Immediately raising the minimum wage to \$10 an hour, as well as indexing and adjusting the wage annually, would make a significant contribution to reducing the poverty experienced by Ontario's workers.

In addition to increasing the minimum wage, the OAB proposes additional resources to enhance enforcement of the *Employment Standards Act* in order to better protect workers in low-wage, precarious jobs. The OAB also proposes a review of the *ESA* to consider legislative changes to better protect workers. The OAB's expenditures for improvements to employment standards enforcement will cost \$25 million.

In Ontario, the monthly benefits provided by both Ontario Works and the Ontario Disability Support Program are dangerously low, requiring families to make horrendous choices such as whether to eat or keep the heat on. Despite the mid-1990s cut in Ontario Works and a ten-year freeze in all social assistance benefits under its predecessor, the McGuinty government increased social assistance rates by only 3% two years ago and a further 2% in the 2006 budget. After taking inflation into account, benefits will still be lower

at the end of the McGuinty government's term in office than when it government was elected in 2003.

This year's OAB ensures benefits match the Social Development Canada market basket measure of low-income at a cost of \$1.8 billion. While this is a significant expenditure, the cost of poverty is far greater.

Additional measures include:

- Ending the clawback of the National Child Benefit Supplement from families on social assistance and continues the reinvestment programs at a cost of approximately \$250 million.
- Ending provincial-municipal cost-sharing of social assistance, shifting \$400 million in social assistance costs from municipalities to the province in 2006–7 and a further \$400 million in 2007–8. The total cost, when fully phased-in will be approximately \$1.3 billion.

### COMMUNITY INFRASTRUCTURE

Ontario's non-profit community agencies are on the front lines providing critical services and support to poor and marginalized communities. Despite its critical role, the sector is chronically underfunded. Over the past decade, community agencies have experienced increased demands for their services as more Ontarians struggle with the impact of rising and intensifying poverty and marginalization.

With an aim of increasing the capacity of organizations to deliver vital services to poor and marginalized Ontarians, this year's OAB recommends an increase of \$225 million to fund non-profit community agencies, including the reintroduction of a core funding program.

## AFFORDABLE HOUSING

Affordable housing is a critical component of income security, yet the government has done nothing beyond responding belatedly to the federal government's new housing program. This year's OAB provides substantial funds that will create new and truly affordable housing, provide rent supplements to tens of thousands of households in great need and provide capital dollars to improve the conditions in deteriorating social housing projects. OAB 2006 will also help municipalities by uploading the cost of social housing programs back onto the province.

The OAB invests in a socially and fiscally responsible affordable housing program that includes \$820 million in operating funding and \$1.1 billion in capital dollars. This will provide funding for more than 8,300 new truly affordable homes, in addition to the 3,500 new affordable homes that the province has already funded under the federal-provincial Affordable Housing Program.

Combining the OAB spending with the existing provincial commitments will help to create 11,800 new affordable homes annually, to support more than 49,000 lower-income households with rent supplements, to upload the cost of social housing back where it belongs at the provincial level and to provide a much-needed major repair fund for older social housing.

## HEALTH

This year's OAB submits that Ontario's health care system should not hinge on 'savings' derived from paying substandard wages to the very workers who make the system work for all of us. This year's OAB protects workers from lowest-common-denominator competition.

The evidence shows budgetary measures that ameliorate poverty and decrease inequality will

both increase the health of Ontarians and, in the longer-run, reduce health care costs. To address both the longer- and short-term health needs of Ontarians this year's OAB will invest in reducing inequality and in strengthening the health care workforce.

Regarding P3s, this year's OAB will:

- not approve or announce any additional alternative financing and procurement (AFP) projects for the hospital sector;
- transform any AFP hospital projects that have not been finalized to traditional government finance methods; and
- prohibit any AFP hospital projects that are going ahead from including contracts for operation of services

Regarding Local Health Integration Networks, this year's OAB will:

- require LHINs to provide a right of first refusal to not-for-profit providers in the provision or integration of health care services; and
- prohibit LHINs from using competitive bidding as a method of allocating funding among health care providers.

## CHILD CARE

The McGuinty government should be embarrassed by its response to child care. Ontario should be taking the lead on child care, moving forward with its own plan.

This year's OAB calls for Ontario to lead the way and redouble its efforts. A child care transformation in Ontario is within our grasp. A transformation that puts into place the human and financial resources, legislative tools, partnerships,

expertise, and political will to make an early learning and child care system a reality.

To make this possible, this year's OAB sets out a plan for achieving a universal, affordable, publicly funded, not-for-profit early learning and care system for all children aged 0–12.

The OAB will jump-start our plan by putting on the table funding that matches and raises what the previous federal government had promised, and which the new Conservative government is proposing to renege on. This will mean an initial infusion of \$520 million in new provincial dollars in the first year, followed by an additional \$560 million in the second year. Added to existing provincial expenditures in child care (\$450 million annually), this will bring total provincial spending to \$1.5 billion annually by the second year of our plan.

The OAB is committed to a prudent course of action that lays a critical financial and legislative foundation for the expansion of an affordable program. By taking a measured, long-term approach the OAB is taking the necessary steps to make the vision for a system of early learning and child care services a concrete reality, one that can stand as an example for the rest of the country.

## **ELEMENTARY AND SECONDARY EDUCATION**

Last year's OAB called for a continuing commitment to lower class sizes, particularly in the primary grades. The McGuinty government has honoured the commitment it made during the election. In addition, it has recognized the need for more teachers in both the elementary and secondary system. Money has been provided for more classroom resources as well as a number of other initiatives. Yet there is more to be done.

The benchmark in the formula for teachers provides boards with substantially less than their

actual teacher employment costs. As a result, boards employ substantially fewer teachers than the number contemplated by the funding formula. This underfunding has also forced school boards to pull funding out of other areas, contributing significantly to cuts in other programs.

On average across the province, employment costs for teachers are 8.5% higher than the allocation under the funding formula. The total cost across the province to bring teacher funding in the Foundation Grant up to actual costs would be approximately \$525 million. A further \$125 million would be required to fund foundation grant non-teacher salaries at actual costs.

Pending a review of the funding needed to maintain all school buildings in the province to an adequate standard, this year's OAB would increase funding for each board to its 1997 cost of operations per square foot, adjusted to reflect projected inflation from 1997 to 2006–7. The cost of this change would be approximately \$235 million.

Funding for adult education, on a full-time equivalent per student basis, is just over half of the funding provided for regular secondary school students. This year's OAB would fund adult students at the same rate as regular secondary school students, at an estimated cost of \$140 million.

## **POST-SECONDARY EDUCATION**

Despite having increased Ontario's funding for colleges and universities, the Liberal government's reversal of its position on tuition — from tuition freeze to advocate for double-inflation increases for the indefinite future — sends a terrible signal to the children of low- and middle-income families.

While the Ontario government has allocated an additional \$358 million in student assistance funding to be phased in by 2009–10, most of this

money will be clawed back through tuition fee increases. In fact, if tuition fees rise by 5% each year for the next four years, then for every dollar allocated by the government to student aid more than one dollar will be clawed back through tuition fee increases.

This year's OAB will invest \$1.2 billion in post-secondary education to accelerate the government's timetable for improving provincial funding to the national average, per student; by continuing the tuition freeze; and by substantially enhancing the student grants program.

### **PUBLIC INFRASTRUCTURE**

The government's commitment to renew public infrastructure has been captured by self-interested advocates of commercialization of public facilities, despite the higher cost and greater risk to the public interest that these schemes entail. It has also been inadequate relative to the need. The OAB puts forward a proposal for infrastructure funding which minimizes the cost and risk to the public purse and delivers renewed infrastructure at a scale consistent with Ontario's needs.

### **A FOCUS ON CITIES**

Poverty is concentrated in cities, and then again in certain neighbourhoods in cities. Low-income families and individuals depend on public services, especially those provided by municipalities, to meet their basic needs.

As Toronto grapples with the hopelessness expressed by youth resorting to gangs and gun violence, the long-term solution lies in community and public supports that will overcome poverty and despair.

All of us rely on the basic municipal infrastructure to underpin the quality of our lives:

safe clean water, garbage pick-up and disposal, police, firefighters and ambulance services, streets and roads.

Successive provincial governments have created fiscal crises for Ontario's municipalities by downloading responsibilities without adequate funding and without creating room for municipal government to fund these services through progressive taxes.

This year's OAB restores the province's responsibility for fair funding, allowing municipalities to use the municipal property tax base for their own services and capital expenditures.

This year's OAB also:

- reassumes responsibility for funding affordable housing;
- reinstates the 75% funding formula for public transit capital;
- makes contributions of \$6.7 billion in 2006–7 to a capital renewal fund, much of which will be directed towards local government initiatives;
- reforms and renews the social assistance system, which will alleviate some costs currently borne by local governments;
- restores the ability of school boards to participate fully in supporting services to children;
- implements the child care program;
- implements the recommendations of the Walkerton Inquiry by creating a clean water fund, to be funded from the infrastructure renewal fund; and
- provides additional direct funding for the non-profit organizations whose work is so important to developing and maintaining community social infrastructure.

## PAYING DOWN ONTARIO'S ENVIRONMENTAL DEFICIT

Ontario's capacity to regulate environmental quality in the public interest was destroyed by the Harris government's cuts. It remains inadequate to the task. This year's OAB provides additional funding for both the Ministry of Environment and the Ministry of Natural Resources by \$200 million in the next year to address this need.

The OAB calls for \$200 million — funded from provincial general revenue — for new programs supporting energy conservation and efficiency. The OAB also allocates \$200 million in the next fiscal year for capital costs and \$105 for operating, in addition to the federal contribution to public transit. Any special projects such as new “smart cards” and new subway construction would require additional funding.

## FISCAL FRAMEWORK AND REVENUE MEASURES

The OAB proposes increases in program and capital expense of \$7.7 billion in 2006–7, rising to \$10.2 billion in 2007–8 and \$10.9 billion in 2008–9.

Additional revenue sources contribute \$5.4 billion in 2006–7, \$7.0 billion in 2007–8 and \$7.2 billion in 2008–9.

This year's OAB proposes a combination of targeted revenue measures to recover approximately half of Ontario's lost fiscal capacity:

- eliminating tax expenditures in the employer health tax and tying the rate to health care costs;
- recovering wasteful corporate tax cuts;
- 2% additional income tax rate on income in excess of \$100,000 per year;
- tobacco taxes to match the BC and Alberta rate of \$32 per carton;
- 2 cents per litre of gasoline and motor vehicle fuel; and
- additional revenue from tightened tax administration.

In combination, these measures enable this year's OAB to match the deficit reduction targets of the provincial government while delivering substantial progress towards filling real public services gaps in this province.

## OAB Fiscal Framework

	2006-7	2007-8	2008-9
<b>Forecast fiscal balance</b>	<b>-2.4</b>	<b>-1.5</b>	<b>0.0</b>
<b>Adjustments</b>			
Reserve	0.0	0.5	0.5
Debt Service	0.4	0.5	0.6
Revenue	1.9	2.1	2.6
Capital tax cut not in OAB	0.1	0.1	0.1
Total adjustments	2.4	3.2	3.8
<b>Fiscal room, same deficit targets</b>			
Adjustments to base	2.4	3.2	3.8
Additional revenue sources	5.4	7.0	7.2
Total fiscal room	7.8	10.2	11.0
Net program spending increase	7.4	9.2	9.3
Net capital expense increase	0.3	1.0	1.6
Total draw on fiscal room	7.7	10.2	10.9
<b>Net position relative to target</b>	<b>0.1</b>	<b>0.0</b>	<b>0.1</b>

## Additional Revenue Sources

Additional revenue sources		2006-7	2007-8	2008-9
<b>Tax expenditures</b>				
Employer Health Tax	Flat rate	1.6	1.6	1.6
<b>Tax rates</b>				
Personal Income Tax 100,000+	2%	0.9	0.9	1.0
Tobacco	32	0.6	0.6	0.6
EHT — 20% of health costs	2.40%	0.0	1.4	1.4
Corporate tax to 2000 rates		1.3	1.3	1.4
Gas & Motor Vehicle Fuel	0.02	0.4	0.4	0.5
Tax administration	1%	0.6	0.6	0.7
<b>Total additional revenue</b>		<b>5.4</b>	<b>7.0</b>	<b>7.2</b>



**CCPA**  
CANADIAN CENTRE  
for POLICY ALTERNATIVES  
CENTRE CANADIEN  
de POLITIQUES ALTERNATIVES

**410-75 Albert Street, Ottawa, ON K1P 5E7**

**TEL 613-563-1341 FAX 613-233-1458 EMAIL [ccpa@policyalternatives.ca](mailto:ccpa@policyalternatives.ca)**

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