

# OAB 2006

**WE Can't Afford POVERTY**



**ONTARIO ALTERNATIVE BUDGET 2006**



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# Introduction and Summary

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 \$15 billion 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.

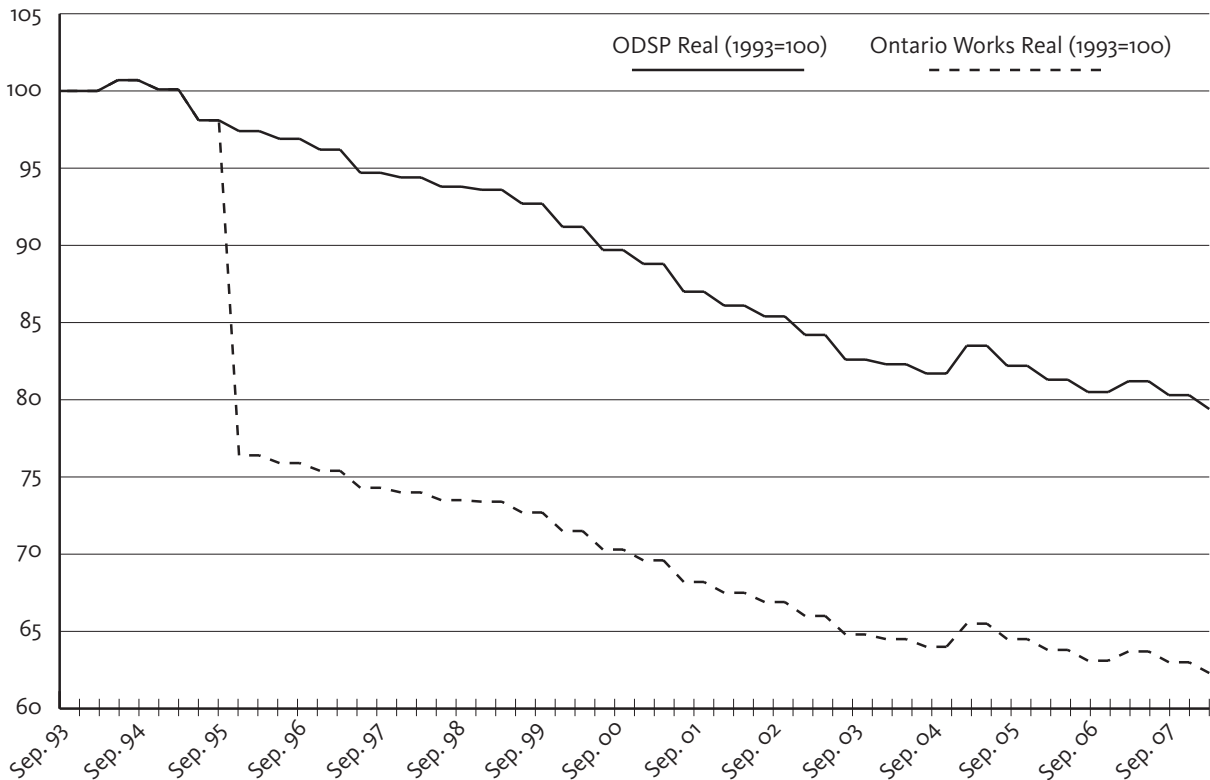
The overriding theme for this year's Alternative Budget is the urgent need for Ontario to address the issue of poverty and income inequality in Ontario. The assistance provided to Ontario's lowest-income citizens is shamefully inadequate — an income level far below subsistence level in major cities, which is where most low-income Ontarians live. The government's response has been a disgrace.

After taking inflation into account, the 2% increase in Ontario Works (OW) and Ontario Disability Support Plan (ODSP) benefits slated for September 2006 means benefits will still be lower at the end of the McGuinty government's term in office than when it government was elected in 2003.

Chart 1 shows OW and ODSP benefits, adjusted for inflation, from 1993 to (projected) 2007.

The government has not even seen fit to fulfill its election promise to end Ontario's clawback of the Federal Child Benefit Supplement from social assistance recipients. In his budget speech, the Fi-

**CHART 1 Ontario Works and ODSP Rates, Adjusted for Inflation (1993=100)**



nance Minister made a point of taking credit for the fact that the government has passed through the increases in the National Child Benefit Supplement that have taken effect since 2003, amounting to nearly \$550 per year for a single parent with two children. The Minister neglected to point out, however, that the Harris/Eves clawback — against which the Liberals campaigned — is still in effect. It costs a single parent family more than \$2,700 per year in federal benefits denied.

That the Liberal government chose to continue the clawback, denying these benefits to poorest of Ontario's families with children, in the face of a fiscal turnaround in 2005–6 of more than \$3 billion adds insult to the injury.

This year's OAB ensures benefits match the Social Development Canada market basket measure of low-income.

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 creates a made-in-Ontario initiative to address the critical shortage of affordable housing.

The McGuinty government should be embarrassed by its response to child care. After declaring child care a priority, the government has apparently decided to fold its child care tent in the face of the Harper government's intention to cancel funding for a national child care program. That is just not good enough. Especially following the Harris/Eves cuts to child care in the late 1990s, the status quo is not adequate.

Ontario should be taking the lead on child care, moving forward with its own plan. Child care is not simply an opportunity to take advan-

tage of promised federal dollars, it is an initiative within provincial jurisdiction that is critical to this province's social and economic future.

This year's OAB sets aside funding to phase in a comprehensive child care/early childhood education program delivered in publicly regulated, non-profit facilities.

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. Participation by low- and moderate-income students in post-secondary education is far lower than it should be. The limited and targeted assistance for the lowest-income students does not come close to meeting the need created by the tuition increases allowed under Harris/Eves since the early 1990s.

This year's OAB shows how affordable continuation of the tuition freeze truly is; it also substantially increases funding for student financial assistance.

The McGuinty government's policy posture towards low-income Ontarians is out of step with the social values of this province and inconsistent with its electoral commitments in 2003.

But the OAB's commitment to justice for low-income Ontarians is not simply a matter of altruism. Persistent poverty and inequality is more than a crisis facing its victims, it is a draw on our society in other areas.

As the Romanow Commission pointed out, low-income families and individuals tend to be less healthy than others. They make more use of the health care system. Poor children — particularly children whose families cannot afford to provide nutritious meals — have more difficulty in school. Poverty also pushes people into contact with the criminal justice system, imposing greater costs and undermining community security.

Ontario cannot afford to do anything less than take decisive, immediate action to deal with poverty and inequality, as well as its consequences.

While inaction on policies that would address poverty and inequality constitute the most glaring shortcoming of the McGuinty government's budgetary strategy, there is more to be done.

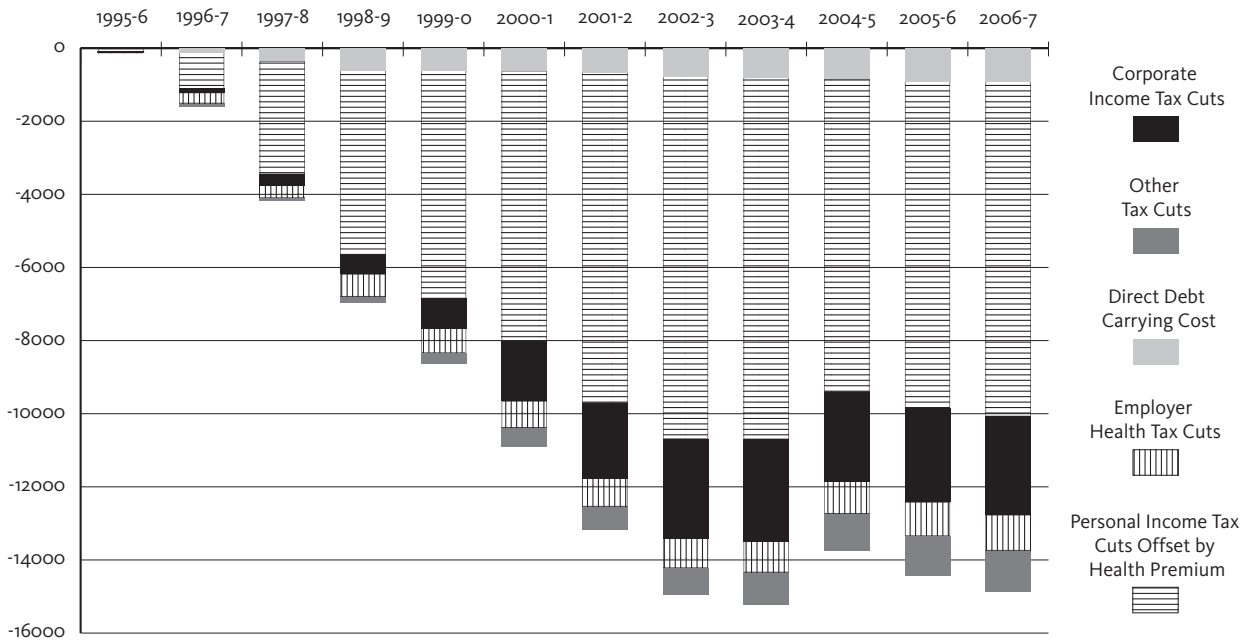
Even in those areas in which the government deserves credit for increasing investment, substantial gaps remain. For instance, the government has failed to address the problem of low pay in the health care sector. This problem is particularly acute in parts of the sector dominated by private investors. The Harris and Eves governments fostered an environment in which critical services like home care and long-term care were auctioned off to corporations who competed on the basis of paying their employees less. By shifting long-term care from public facilities to private facilities, the McGuinty government is continuing the process of exposing health care workers to lowest-common-denominator wage competition — and that is bad for public health care.

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.

In elementary and secondary education, the government has made substantial progress toward realizing the priorities it set out in the election campaign: reducing class sizes, providing for more specialist teachers, reducing teachers' work loads, and working off the backlog of deferred maintenance that left our schools in a terrible state of repair.

Unfortunately, the government has ignored the legacy of inadequate funding it inherited. Most notably, the Liberal government has continued the Harris government's strategy of providing school boards with less funding for teachers than

**CHART 1 Annual Tax Cut Impact on Fiscal Capacity in Ontario, 1995-6 to 2006-7: Debt Carrying Cost and Revenue Loss**



than the amounts they are legally required to pay. They also still fund school operations and maintenance below adequate levels. School boards have no choice but to devote funds intended for system improvement towards filling the holes resulting from the funding formula. Funds meant for at-risk students are used to make up the teacher funding deficit. And while schools are being repaired, the funding inadequacy that gave rise to the maintenance backlog in the first place is essentially unchanged.

This year's OAB fills gaps in funding for teachers and school operations, freeing up funding for improvements to the system.

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.

This year's 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.

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 to address this need.

Finally, this year's OAB includes two significant changes that will go a long way to redress the fiscal imbalance between the provincial government and Ontario municipalities that was created by the Harris government's downloads. This year's OAB shows how do-able it is to fund social housing and adequate social assistance benefits increases entirely from provincial financial resources.



The McGuinty government claims to be concerned about the financial situation of Ontario's local governments. But it has not done anything about it, claiming it is unable to act until something is done about the fiscal imbalance between the federal government and Ontario. The argument is specious.

In the first place, if Ontario wanted to respond to increased federal transfers by increasing transfers to local governments, it would already have done so, given the substantial increases in federal transfers that have already taken place.

More important, by training its sights on the federal fiscal imbalance, the government is conveniently ignoring the real cause of Ontario's fiscal capacity pressures: tax cuts implemented in the 1990s that Ontario could not — and still cannot — afford.

Chart 2 shows the trajectory of the tax cut driven drain on Ontario's fiscal capacity from 1995–6 to 2006–7, taking into account the Health Premium as an offset to the impact of income tax cuts.

The annual fiscal capacity loss associated with the Harris era tax cuts is now \$14.9 billion, approximately where it was before the partial offset provided by the McGuinty government's Health Premium.

Faced with that kind of fiscal legacy, it is simply not credible to attribute Ontario's refusal to redress services gaps to cuts in federal government transfer payments.

Yet that is exactly what Premier McGuinty continues to do. He continues to talk about a \$23 billion gap, when the very Statistics Canada data on which he has been relying now say the current number is approximately \$18 billion.

Both the Premier and the Minister of Finance go on and on about a shift in the fiscal gap from \$2 billion in the mid-1990s to \$23 billion today, when the data show virtually all of that change is attributable to the swing in federal finances from

large deficits in the mid-1990s to surpluses today. The apparent improvement to \$18 billion is largely attributable to the fact that the federal surplus has declined from its post-2000 peak.

Ontario continues to talk about a double-digit imbalance as if it were amenable to changes in federal government transfer payment policies. But half of that amount is on the revenue side of the budget and more than half of the rest has nothing to do with federal government transfers. For example, the imbalance in the EI system is attributable to a program design that works against Ontario's unemployed.

The Premier's recent demand for \$3.2 billion more from Ottawa is probably closer to the actual fiscal imbalance. That this demand is being made in a political environment in which there is no chance of it being met makes the ulterior objective clear — to deflect attention away from Ontario's real fiscal problems.

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.

# 1 Making Ends Meet: Income Security in Ontario

No one deserves to live in poverty. And in a place as wealthy as Ontario, no one should have to. Still 14.4% of people in Ontario are living in poverty<sup>1</sup> — not because they aren't working hard, but because too many jobs pay poverty wages and because social assistance rates force people to live without adequate resources to maintain a healthy, decent standard of living.

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. If the McGuinty government is serious about ensuring low-income people have a decent standard of living and Ontario's communities are characterized by social inclusion and well-being, minimum wage and social assistance policy require serious attention.

## Poverty wages

People in Ontario work hard. We work hard to do our jobs well. We work hard to ensure the needs of our families are met. But for more than one million workers in Ontario, paid work does not guarantee an escape from poverty. One in four workers in Ontario is making poverty wages.<sup>2</sup>

The inadequate minimum wage and the prevalence of low-wage, precarious work are largely to

blame for the fact that so many workers and their families are living in poverty. Ultimately, however, it is the government that fails to adequately regulate the minimum wage and precarious work that is responsible for these workers' poverty.

In 2003, the Liberal government announced a plan to increase the minimum wage by 30 cents each year until it reaches \$8 an hour in 2007. Currently, the general minimum wage is \$7.75 an hour. Even when the wage reaches \$8 an hour next year, workers will still be living thousands of dollars below the poverty line and desperately struggling to make ends meet. Currently, for example, a single worker in a large city working 35 hours a week, 52 weeks a year falls 33% below the poverty line.<sup>3</sup>

Approximately 200,000 workers in Ontario earn minimum wage.<sup>4</sup> 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.<sup>5</sup> 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.

It is argued by some that increasing the minimum wage will have a negative impact on the economy. That contention is not borne out by the facts. A growing body of research has found mini-

imum wage increases have little or no effect on employment levels.<sup>6</sup>

It is time for the McGuinty government to get serious about protecting workers and make sure work pays. Raising the minimum wage is an important first step.

In addition, the McGuinty government needs to address the prevalence of precarious, low-wage work in Ontario.

Despite improved economic conditions over the last two decades, the proportion of low-wage jobs has not diminished.<sup>7</sup> The prevalence of low-wage work combined with the significant increase in temporary work has created difficult labour market conditions for workers. Women, workers of colour, recent immigrants, workers with disabilities, Aboriginal workers, and people with minimal education are concentrated in jobs characterized by poverty wages, a lack of benefits, poor pensions, and job insecurity.<sup>8</sup>

The current employment standards regime is not only ineffective, it is inappropriate for today's labour market. Ontario's *Employment Standards Act* (ESA) is based on a model in which workers have a full-time, full year job with a single employer. While that may still be the ideal, and the goal of most workers, 37% of work is now organized by employers outside the standard employment relationship.<sup>9</sup> In addition, even the standards that do apply are poorly enforced. As a result, workers in low-wage, precarious jobs are exceptionally vulnerable to job loss, poor working conditions, and violations of their rights.

In addition to increasing the minimum wage, the OAB proposes additional resources to enhance enforcement of the ESA. 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.

## **Social Assistance: Ontario Works and the Ontario Disability Support Program**

Many of us at some point in our lives will be without paid work because of job loss, illness, disability, or family responsibilities. Some of us may be able to rely on a spouse or family for financial support. An ever diminishing number of us may be eligible for Employment Insurance. Some of us may have our own financial cushion. Some of us will need social assistance. In Ontario, social assistance is delivered through the Ontario Disability Support Program (ODSP) and Ontario Works (OW).

In Ontario, the monthly benefits provided by both OW and ODSP 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.

That is far from an adequate response to the financial crises faced by tens of thousands of Ontarians. Inflation has already eaten up that increase. Even with the increase announced in the budget, rates will be lower, in real terms, than when the McGuinty government was elected in 2003.

Families are going hungry and living in sub-standard housing. The McGuinty Liberals need to get serious about ensuring people on social assistance have an adequate standard of living, for both families with children and those without.

All too often discussions regarding poverty focus on so-called child poverty. While this is understandable, given the obvious political advantage of focusing on children, it distracts us from the fact that children are poor because their parents are poor; it disguises the causes of poverty. Furthermore, the focus on child poverty directs attention away from the poverty of those without children.

In the 2006 budget, the McGuinty government touts increases in the incomes of families with children since it was elected, using an example showing a 15% income gain for a single parent with two children. The example, however, applies only to families with children because it includes the flow through of increases to the National Child Benefit Supplement (NCBS).

Distinguishing in this way between ‘deserving’ and ‘undeserving’ poor is ethically unacceptable and counterproductive from a policy perspective, since poor children live with poor parents. No adult, nor child, should be living in poverty in Ontario.

There are many different tools with which to measure poverty, including Statistics Canada’s Low Income Cut-Offs. This year’s OAB uses the lower measure of Social Development Canada’s Market Basket Measure (MBM) to provide a general idea of what it costs to for families in Ontario to make ends meet and to illustrate the gross inadequacy of social assistance rates.<sup>10</sup> The MBM estimates the cost of a basket of goods that would typically be consumed by Canadians. Estimates for different community sizes for each province exist. The MBM does not always include the cheapest items, but nor does it allow for more than a very modest, adequate standard of living. The components of the MBM are outlined below.

## Market Basket Measure

- **Food:** This component does not represent an ideal diet, but does allow for basic nutritional needs to be met and is consistent with the food purchasing of ordinary Canadians.
- **Clothing and Footwear:** This component represents the clothing and footwear commonly required for work, school and social occasions.
- **Shelter:** The average (median) rent is accounted for. It is assumed utilities (water, heat and electricity) are included, as well as a refrigerator, stove and access to use of a washer and dryer.
- **Transportation:** In urban areas, monthly transit passes are accounted for as well as one round-trip taxi ride a month. In rural areas, the cost of paying for and operating a 5-year old basic Chevrolet is accounted for.
- **Other goods and services:** This component includes personal care, household needs, furniture, basic phone services, reading, recreation, entertainment, school supplies, envelopes and postage.

**TABLE 1 Comparison of current social assistance rates to the MBM**

Family structure	Current monthly OW benefit level (\$)	Current monthly ODSP benefit level (\$)	Market Basket Measure <sup>11</sup> (monthly) (\$)
Singles	536	959	1,145
Singles w/1 <sup>12</sup>	987	1,468	1,604
Singles w/2 <sup>13</sup>	1,161	1,690	1,947
Singles w/3 <sup>14</sup>	1,310	1,818	2,291
Singles w/4+ <sup>15</sup>	1,499	2,222	2,635
Couples <sup>16</sup>	929	1,460	1,604
Couples w/1 <sup>17</sup>	1,062	1,631	2,062
Couples w/2 <sup>18</sup>	1,252	1,872	2,406
Couples w/3 <sup>19</sup>	1,404	2,066	2,749
Couples w/4+ <sup>20</sup>	1,570	2,275	3,093

Table 1 compares the MBM to current social assistance rates.

The OAB contends that our income security system must ensure a decent standard of living. Prior to the federal government's 1995 funding cuts, the vehicle for an integrated Canadian approach to income security was the Canada Assistance Plan (CAP). The loss of CAP, drastic cuts in welfare benefits in Ontario, and the gutting of the EI program at the national level have created an environment in which there is very little hope for the comprehensive reform of the social assistance system that is desperately needed.

This year's OAB raises social assistance rates to levels which, in combination with Federal Child Benefits, match the MBM at a cost of \$1.8 billion.

This year's OAB estimates \$1.8 billion is required to ensure people on social assistance can make ends meet and can participate in their communities. While this is a significant expenditure, the cost of poverty is far greater.

The cost of poverty to the health care system is substantial. Low-income people get sick more often and more seriously, putting a significant toll on the health care system. People living in the poorest 20% of neighborhoods are more likely to die of just about every disease that can result in death than people who are well-off. These diseases include cancer, heart disease and diabetes.<sup>21</sup> Furthermore, there are significant health differences between children who are poor and those who are not. There are health differences in the incidence of illness and death, hospital stays, accidental injuries and mental health, among other things.<sup>22</sup>

Research shows that poverty even has a negative impact on the health of non-poor people in societies where there are significant income gaps. As a result, the *British Medical Journal* has argued, "What matters in determining mortality and health in a society is less the overall wealth of that society and more how evenly wealth is dis-

tributed. The more equally wealth is distributed the better the health of that society."<sup>23</sup>

The significant health expenditures that result from poverty could be substantially reduced by lessening the depths of poverty people are living in as well as narrowing the income gaps in Ontario.

A special diet supplementary amount was available to people on social assistance with medical needs. Solid research has demonstrated that people cannot afford an adequate diet with the money from social assistance and that even supplementing this with food banks does not ensure proper nutrition. A broad grouping of health care providers, community health centres, low-income people and advocates have been using the special diet supplement programme to get slightly more funds for poor people's nutritional needs. The provincial government has responded by arbitrarily implementing new forms that compromise medical confidentiality, lowering support for particular conditions unsupported by evidence, and creating increased hardship for those who are most medically fragile. The OAB addresses the fundamental problem by raising the levels of social assistance.

In addition to costing Ontario health dollars, poverty imposes higher costs on the justice system, the Children's Aid Society, and the education system. As witnessed throughout the province, poverty breeds frustration, social exclusion and isolation which can result in crime, violence and other anti-social behaviour. Furthermore, research shows that poor children have lower school achievement than children who are well-off.<sup>24</sup> The impact of poor academic achievement and school drop-out affects the child's academic and social development, but it also affects their future income earning potential. Level of education is directly related to income earnings.<sup>25</sup>

Finally, we must ask ourselves if we are willing to accept the costs to our moral fabric that result in allowing the current depth and extent of poverty to persist. Indeed, it seems the only way we

can continue to allow low-income people to live in such sub-standard conditions is to deem poor people less valuable than well-off people — and allow our government to continue making policy that does not take the needs and well-being of low-income people seriously.

### **The National Child Benefit Supplement — ending the clawback**

The National Child Benefit Supplement (NCBS) was established in an agreement of the federal-provincial-territorial levels of government. The aim of the NCBS is to alleviate child poverty. Despite its goal, the NCBS is deducted from families receiving social assistance. The money that is ‘clawed back’ from families on social assistance is reinvested in programs such as rent banks and child care supplements for low-income people. Most of the reinvestment programs are important and useful to low-income families. However, they should not be funded on the backs of the poorest people in our communities.

During the election campaign, the McGuinty Liberals promised to end the clawback of the NCBS from families on social assistance. They have not kept this promise. Instead, the government has simply allowed families receiving social assistance to keep the annual increases to the NCBS from July 2004 forward. The McGuinty government continues to clawback the remaining 75% of the NCBS from families on social assistance. A single parent with two children receives a monthly NCBS benefit of \$305; the government claws back \$226 of that amount by reducing the family’s social assistance benefit.

While the McGuinty Liberals blame the deficit inherited from the Tories for their inability to end the clawback of the NCBS, the OAB believes there is no excuse for this Liberal failure. The current government, like the previous Tory government has chosen to let poor people continue to live in

dangerous, sub-standard conditions because poor people simply are not a priority.

The McGuinty government has failed to take the lives and well-being of poor people seriously. The OAB does. The OAB ends the clawback of the National Child Benefit Supplement from families on social assistance and continues the reinvestment programs. This will cost approximately \$250 million.

### **Provincial-municipal cost-sharing — ending the download**

Social assistance is currently cost-shared between the province (80%) and municipalities (20%). This does not make sense. It is the province, not municipalities, which has the revenue-generating capacity to maintain a reliable social assistance system. Virtually every study of the provincial-municipal financial relationship has recommended that social assistance be funded entirely by the province. Yet the Harris Government went in the opposite direction, increasing the municipal share of social assistance.

Under the McGuinty government, this unacceptable situation has remained unchanged. The OAB phases in the upload, 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.

<b>Income security</b>	<b>\$ million</b>
Strengthen enforcement of employment standards	25
Increase social assistance rates to Market Basket Measure	1,850
End clawback of the National Child Benefit Supplement	250
End download of social assistance benefits (over 2 years)	800
<b>TOTAL</b>	<b>2,925</b>





## 2 Community Infrastructure

Ontario's non-profit community agencies are on the front lines providing critical services and support to poor and marginalized communities. The non-profit sector in Ontario is responsible for the delivery of a broad range of quality community services including settlement services to newcomers, recreational services, home care, homeless shelters for survivors of violence, advocacy services for marginalized groups, community development work and civic engagement initiatives.

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. In particular, small, emerging and ethno-specific agencies have been hardest hit. At the same time, new funding regimes have led to a loss of long-term, stable core funding, jeopardizing the capacity of agencies to retain talented staff and deliver quality services to communities.

Increasingly, funders have shifted from providing multi-year core funding that covers ongoing administrative costs to single-year project funding. Typically, funding models have not covered the full cost of projects and have not allowed for incremental administrative expenses. These flawed models have undermined the capacity of

agencies to deliver quality services to communities. This shift has been accompanied by increased reporting requirements by funders without the accompanying funds to support these requirements. This has left agencies struggling to meet basic administrative expenses, expending greater time and resources piecing together small amounts of funding from multiple sources, and working within an increasingly competitive climate, often straining relationships among agencies.

While the Ontario government remains one of the key funders of the community sector, many agencies that receive provincial funding are limited to accessing short-term project and contract funds. The Community and Neighbourhood Support Services Program (CNSSP) represented an innovative departure from the usual streams of project funding. Introduced in 1985, CNSSP provided core funding to community agencies through a partnership involving the provincial government, municipalities, and the United Way of Greater Toronto. In 1995, shortly after the Harris government came to power, CNSSP was eliminated, along with an alarming number of other provincial programs.

A decade after the elimination of CNSSP, the provincial government has yet to reintroduce a mechanism to provide core funding to vital community agencies. CNSSP serves as one innovative model for delivering core funding to non-profit

community agencies. 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.

This core funding must be multi-year in nature to allow consistent longer term planning and programme development. There also must be a more effective and responsive accountability regime:

- with performance indicators and objectives that reflect real impact on community needs and priorities;

- which requires significant community input in determining what to measure and what evidence counts;
- programme evaluation that can identify and then share or scale up successful local innovations and delivery;
- while cutting the existing huge burden of reporting endless data that is never used by government funders and tells us nothing about programme effectiveness — an administrative burden that diverts overstretched community agencies from programme delivery and development.

<b>Community infrastructure</b>	<b>\$ million</b>
Funding for non-profit community agencies, including core funding	225
<b>TOTAL</b>	<b>225</b>

## 3 Affordable Housing

Ontario's affordable housing crisis and homelessness disaster continues to take a desperate toll on low-, moderate-, and middle-income households. High rents, a lack of affordable supply and deteriorating conditions have combined to create greater distress, poverty, and homelessness throughout the province.

Rental vacancy rates, which edged up slightly in the last couple of years, have started to move back down in many parts of the province. Overall, the number of vacant units is a tiny fraction of the number of households on social housing waiting lists.

Average rents are up throughout the province. Household incomes for low-, moderate-, and middle-income households are stagnant or declining. Rising rents and dwindling income add up to a growing shelter gap: the difference between the rent a landlord is able to charge versus the amount a household can afford to pay. The shelter gap in Toronto — the highest rent jurisdiction in all of Canada — is now more than \$4,000 annually.

The Ontario Rental Housing Tribunal reports that a record 64,864 households faced eviction in 2005 — an increase of almost 10% over the previous year. A 2004 study in Toronto found that almost one-third of tenant households that were evicted ended up in homeless shelters. Another one-third became the “hidden homeless” — peo-

ple who live on a temporary basis with family or friends.

Meanwhile, almost two-thirds of Ontario's rental housing stock is more than 30-years-old (both private and public housing). Physical conditions in a growing percentage of the aging housing stock are poor and urgently require attention.

The McGuinty Liberals campaigned in the Fall of 2003 on a promise to rebuild Ontario's public services. Their supply commitments included:

- “almost 20,000 new housing units for needy families”;
- a “priority to the development of affordable housing on Ontario government-owned lands”;
- the creation of a new “Ontario Mortgage and Housing Partnership to provide competitive financing rates for non-profit, co-operative and commercial developers who want to build rental housing in Ontario”; and
- a “significant increase [to] supportive housing options for those suffering from mental illness”, approximately 6,600 units over four years.

After six months in office (by the end of March 2004), the Ontario government had funded a to-

tal of 18 new affordable homes in the entire province. The Ontario government spent the next year negotiating a new federal-provincial affordable housing agreement, and four more months negotiating an allocation schedule with municipalities. The new Ontario plan calls for 2,294 affordable rental homes in 2006/7, 1,326 in 2007/8, and 2,526 in 2008/9. That's a total of 7,027 new affordable homes (if they actually deliver these units) — only slightly more than one-quarter of the 26,600 new homes promised in 2003.

Ontario continues to have a desperate shortage of new affordable rental housing. The latest rental market report by Canada Mortgage and Housing Corporation (December, 2005) shows that the provincial rental vacancy rate is falling. This is not just in big centres like Toronto but also in smaller communities such as Cobourg and Sault Ste. Marie. The latest numbers also show there are slightly more than 23,000 vacant rental units in Ontario. Compare that to the estimated 124,785 households on Ontario social housing waiting lists.

Or, as CMHC Chief Economist Bob Dugan has stated: “Even though the average rental apartment vacancy rate has moved higher in recent years, many households are still facing affordability issues across Canada. Either these households need to move to less expensive units or require additional help to make their monthly shelter costs more affordable. In many cases, however, there are not enough vacant units to meet the needs of all households in core housing need. Therefore, additional affordable housing units continue to be required.”

Last year's Ontario budget offered no new spending for housing (other than the money already promised for the federal-provincial affordable housing program). And the budget also delivered an 11.4% cut to the operating budget of the Ministry of Municipal Affairs and Housing — in

dollar terms, the second-largest cut to any provincial ministry.

The McGuinty Liberals also made affordability promises in the 2003 campaign:

- a housing allowance for low-income families [to] provide direct, immediate housing relief for 35,000 families”; and
- “a provincial rent bank to help tenants with short-term arrears so that they can keep their homes”.

The federal-provincial affordable housing program includes 5,000 housing allowances, with most to be allocated this year. The McGuinty government has extended a modest provincial rent bank program and has offered a modest emergency energy relief program (next to high rents, the high cost of energy is the most common reason for eviction in Ontario).

There have been massive cuts to provincial housing spending in recent years — and the McGuinty government has done little to reverse those trends. In 2000–1, Ontario spent more than \$1.3 billion in affordable housing programs. Estimates for the current year show provincial spending of about \$675 million. And that includes \$522 million in federal housing transfers.

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.

The OAB provides funding to reverse the disastrous decision of the Harris government in

1998 to download the cost of provincial housing programs to municipalities. On the operating side, OAB 2006 includes:

- \$600 million to upload the cost of housing programs to the provincial level; and
- \$220 million for 45,000 rent supplements for low, moderate and middle-income households. Some of these rent supplements would be tied to the new supply program, and the rest would be divided among existing private and social housing providers. These are in addition to the 4,400 rent supplements that the province has already funded under the federal-provincial Affordable Housing Program.

This year's OAB provides 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. On the capital side, OAB 2006 includes:

- \$830 million for a provincial housing program that would provide capital grants of up to \$100,000 per unit; and,

- \$300 million for a social housing rehabilitation fund to assist local housing managers in bringing aging housing stock up to proper standard.

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.

<b>Housing</b>	<b>\$ million</b>
Upload housing from municipalities to province	600
45,000 additional rent supplements	220
Provincial housing program — capital grants	830
Social housing rehabilitation fund — capital	260
<b>TOTAL</b>	<b>1,910</b>



## 4 Health

### Health, inequality and poverty

The Health Council of Canada recently identified the biggest health problem in Canada as inequality.<sup>26</sup> As in other industrialized countries, increased sickness and earlier death are clearly linked to social class.

There is a well established link between poverty and poor health; those who have few resources and are socially excluded are at the highest risk for sickness and early death.<sup>27</sup> The poorest children in an English study were 40% more likely to die in their first 10 years compared with the children in the highest income socio-economic group.<sup>28</sup> In Canada, the infant mortality rate in low-income neighbourhoods is almost double that in high-income neighbourhoods.<sup>29</sup> Life expectancy at birth for men in high-income neighbourhoods in urban Canada in 1996 was 5 years higher than for men in the lowest-income neighbourhoods.<sup>30</sup>

There is growing evidence that childhood poverty has life-long negative effects on health.<sup>31</sup> Early life experiences have a profound impact on brain and body development as well as coping abilities. Consequences of poor early childhood development can include restricted brain development; reduced language development; and compromised mental and physical health throughout life.<sup>32</sup> A New Zealand study, for example, found that children who grew up in lower socio-economic status

families had at age 26 years poorer cardiovascular health, worse dental health, and increased substance use compared with those from high socio-economic status backgrounds.<sup>33</sup>

Social exclusion is a short-hand term for what can happen when people suffer from a combination of linked problems such as unemployment, discrimination due to racism, sexism or other grounds, poor skills, low incomes, poor housing, high crime, bad health and family breakdown.<sup>34</sup> Various forms of social exclusion are often combined and are mutually reinforcing, creating webs of vulnerability.<sup>35</sup> Social exclusion is an expression of unequal power among groups in society as individuals and communities are structurally disadvantaged from access to critical economic, social, political, and cultural resources that determine the quality of membership in society.<sup>36</sup>

Poverty is not random. Poverty in Toronto, for example, is highly racialized. According to the 2001 Census, extreme poverty is a daily reality for 60% of people of Afghan, 54% of Bangladeshi, 57% of Ethiopian, and 72% of Somali ethno-racial groups.<sup>37</sup> All 20 of the poorest ethno-racial groups in the Toronto Census Metropolitan area are non-European. Poverty levels for aboriginal people (31%) and those from the Caribbean (22%) have not improved since 1970.<sup>38</sup> Poor visible minority families in Toronto went from making up 37% of the total poor family population in higher

poverty neighbourhoods in 1981 to 77% in 2001.<sup>39</sup> Women who become lone parents are especially at risk for low-income. Nearly half (47%) of women with children in one study who were married one year and became lone mothers the next year experienced low income in that year.<sup>40</sup>

The widest income inequality gap in Canada is in Toronto. For every \$1 the poorest families in Toronto had to spend, the richest families had \$27.<sup>41</sup> The distribution of wealth is more unequal than the distribution of income. The wealthiest 10% of family units held 53% of the wealth in Canada in 1999. The poorest 10% of family units had negative wealth or more debts than assets.<sup>42</sup> As income inequality increases, so does violent crime, including homicide by firearms. Growing gaps between the haves and have-nots are associated with deterioration of social environments, decreased trust, decreased involvement in community life, and declines in population health.<sup>43</sup>

In addition to the linkages between poverty, social exclusion, and health, there is also evidence to suggest that social hierarchies impact health. The Whitehall study, a well-respected longitudinal research project, followed 10,000 British civil servants for two decades. Although they were not poor and had access to medical care, men between 40–64 years of age in the clerical and manual occupational grades had mortality rates 3½ times higher than senior administrators over a ten-year period. Even when factors such as smoking, cholesterol, and blood pressure were adjusted for, there remained “*something* that powerfully influences health and that is correlated with hierarchy per se.”<sup>44</sup> Evidence confirming the social gradient in health is compelling from a research standpoint<sup>45</sup> and as foundation for political/policy action as shown by the World Health Organization’s Commission on Social Determinants of Health.<sup>46</sup>

There are more than 1.2 million Canadian children living in poverty. A large number of these

(443,000) live in Ontario, where the child poverty rate was 16% in 2003.<sup>47</sup> Child poverty rates vary with and are a function of government policies. An international comparison done by UNICEF found that government interventions of tax and income transferred reduced child poverty rates by 5% in the United States, 8% in Canada, and by 10% in Denmark. Sweden, Norway, Finland, and Denmark all have child poverty rates after tax and income transfers below 5%.<sup>48</sup> It is noteworthy that these social democratic countries with a high commitment to redistributive public policies also had comparatively lower infant mortality rates than the United States and Canada between 1960 to 1996.<sup>49</sup>

### **P3s: Privatizing health infrastructure funding**

In the lead-up to the 2003 election, the McGuinty Liberals promised to bring the Royal Ottawa Hospital and William Osler Health Centre in Brampton into the public system. Shortly after the Liberals were elected, the McGuinty government announced the projects in Brampton and Ottawa would go ahead. The contracts were modified only to provide for technical public ownership while the disadvantageous financing terms and private control remained.

Subsequently, the government announced a program of alternative financing and procurement (AFPs) for hospitals and other public infrastructure. Its position is that AFPs are not P3s because they will remain publicly owned. However, they will be privately financed, and the government has not committed to public operation. Many of the problems associated with P3s arise from private financing and operations. Only two out of the 26 hospital capital projects announced between July and December last year will be conventionally financed.



The government says this method of financing will offer the following benefits:

- accelerated investments in infrastructure;
- transferring the risk of cost over runs and missed deadlines to the private sector;
- enhanced expertise, skills and dependability;
- earlier construction starts on more projects;
- more effective project management and monitoring;
- transparency and fairness in processes; and
- on-time, on-budget project delivery.

The evidence does not support these claims. Studies show P3 initiatives have higher costs and limited risk transfers, and result in a deterioration of the quality of universal services.<sup>50</sup> Recent information about the British experience with P3s provides further cause for concern about the costs and longer-term impact of these kinds of agreements on hospitals. The Queen Elizabeth, a P3 hospital in London, became technically insolvent late last year. A report by Price Waterhouse Cooper stated problems were particularly severe because of the high costs associated with its P3 agreement. The hospital estimated that this method of financing increased costs by £9m a year, or 150%, compared to the costs of an equivalent hospital built with money borrowed from the government.<sup>51</sup> The report states that without the added costs associated with P3 financing, the hospital would be more efficient than others of similar size and nature. The failures of the British P3 experiment are so convincing, they have driven the Economist newspaper to state that the extensive use of private finance to fund new hospitals is bad policy, and that the right lesson from the Queen

Elizabeth hospital is to suspend further PFI commitments.<sup>52</sup>

### Local health integration networks

The LHINs will have broad powers to fund and enter into service agreements with health care providers.

Stakeholders have expressed concern that the government will move towards a split purchaser-provider model used in the UK, in which the government purchases services from a wide range of providers through competitive bidding and in which there is extensive for-profit provision. Available research indicates real cause for concern with the British funding model and with for-profit provision of community services. For example, a comprehensive survey of available research and analysis on the UK model documents significant problems with privatized care in terms of higher overall administrative costs, quality of care and working conditions.<sup>53</sup>

The history of competitive bidding and for-profit contracting in home care in Ontario reveals similar problems:

- One study found increased transaction costs, quality of care and continuity concerns raised by both providers and consumers, and poorer provider morale.<sup>54</sup>
- Several studies have found that the shift to competitive bidding led to intensification of work, increased casualization of work, lower pay and benefits and increased job insecurity. For example, a cross country survey from Human Resources Development Canada found that wages of home care workers were lower in non-unionized for-profit agencies;<sup>55</sup>
- A more specific study found that turnover among nurses and personal care work-

ers rose with competitive bidding and increased for-profit provision.<sup>56</sup>

- The extensive review of the competitive bidding process used by CCACs, chaired by former Minister of Health Elinor Caplan, heard that certain features of non-profit agencies — such as providing extra (meaning non-mandated) services to meet specific needs and their connections to local communities — were much valued by clients. This report, however, failed to analyze in detail continuity of care, satisfaction, working conditions or other variables by type of provider.<sup>57</sup>

### **Equalizing wages and benefits for health care workers across sectors**

The LHINs legislation sets out extensive powers for the transfer, merger, amalgamation, seizure, dissolution and/or winding up services or operations. These changes will have a significant disruptive impact on the lives and careers of health care workers. It is a mistake for the government to assume workers can be transferred from place to place along with the furniture and the funding. Of particular concern is the potential for many nurses to take early retirement and withdraw from the system, aggravating and accelerating the pending crisis of a nursing shortage.<sup>58</sup> There will be a profound impact on other health care workers with the potential loss of good-paying, unionized jobs in this sector.

Equalizing wages and benefits across sectors would address a number of potential problems. First, it would reduce the incentive to move to an expansion of competitive bidding. It would also ensure that any transfers of services were driven by a patient-centred model of care rather than by cost containment. It would preserve the wages and working conditions of a workforce of women

and people of colour, preventing them from falling into poverty. Finally, it would mitigate the shortages that are expected in the health work force. The annual costs of moving to equalize wages and benefits for the existing health workforce in the community to that of the hospital sector would be \$975 million.

### **Improved drug coverage**

The Trillium Drug plan, which provides a prescription drug subsidy for low-income families, is inadequate. The program is not made known to many low-income families; it is excessively bureaucratic; it is available only after low-income families have already over extended themselves; many with modest incomes are ineligible for the program; and its design exacerbates the cash flow problems that most low income workers experience.

To extend and improve drug coverage, this year's OAB will allocate \$80 million to improve the accessibility and eligibility of the Trillium Drug Plan.

### **Health expenditure**

Government policies can have a tremendous impact on health outcomes. Health expenditures in this year's OAB are directed toward improving the Trillium Drug plan and equalizing wage rates for workers in the health sector. The latter will have the dual impact of facilitating the integration of health services between the institutional and community sectors and increasing the income security of marginalized health workers. The OAB will also ensure value for money by supporting not-for-profit delivery of health care.

The government's failure to address appropriately the issue of homelessness creates real health care needs in many areas. For example, it necessitates further investments in long-term care, infir-

mary care and palliative care specifically linked to the homeless. The OAB will ensure that sufficient resources are directed to dealing with the health care implications of homelessness.

Another example of the need for innovation is in the area of mental health treatment, where the cost effectiveness of increased investment in community based “consumer / survivor initiatives” that go beyond narrowly-defined professional care to provide support for mental health consumers and survivors in the community has been clearly demonstrated. This year’s OAB supports the recommendations of the 2004 Ontario Community Mental Health Evaluation Initiative to increase funding for consumer and survivor initiatives by \$5 million per year, from the existing mental health budget.<sup>59</sup>

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 LHINs, 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.

This year’s OAB will also require wages in community transfer agencies rise to the same level as in the hospital sector for comparable positions.

Health	\$ million
Equalize occupational wages across health sector	975
Expand eligibility for Trillium Drug Plan	60
<b>TOTAL</b>	<b>1,035</b>



## 5 Child Care

### The early years: Leading by example

The case for a child care strategy in Ontario has never been clearer.

It is now widely recognized that quality early learning and child care services promote healthy child development as a foundation for a successful economy and a more inclusive, cohesive society. We know that quality child care is an essential component of an anti-poverty and equity strategy. It gives every child a fair start while at the same time providing support for the participation of families — especially women — in the labour market, as well as in training and education opportunities.

A consensus has emerged across Canada that investing in early learning and child care is the right thing to do for families and children today and for our social and economic success down the road. This consensus drove the introduction of Ontario's Best Start plan and paved the way for the achievement of a historic federal-provincial agreement on early learning and child care.

As Canadians come to terms with the Conservative government's intentions to unravel a hard-won national consensus on the early years, Ontario's leadership and vision has never been more important as it is now. Canceling the agreements means the loss of federal support for 25,000 new child care spaces in Ontario. With federal

dollars potentially off the table, a crucial question emerges about which direction the province is prepared to take.

Now is not the time to turn the clock back. The early years are too important to put on hold. We cannot afford to lose the momentum on all that has already been done in Ontario to put child care on the right track. Yet that is exactly what the McGuinty government appears to be doing. Its response to announced termination of the Federal child care program in the 2006 budget was to scale back its own program and spread the remaining federal money out over three years. That is not an acceptable response.

Ontario's need for a modern child care system did not emerge from the Federal program. It stands on its own. And Ontario's critical shortage of regulated child care spaces did not emerge from any Federal government action. It is the legacy of 10 years of cuts and neglect under the previous government — a legacy the McGuinty government had promised to address before there ever was a federal child care program.

### Meeting the demands of Ontario's families

For the vast majority of children and families in Ontario, using regulated child care is not an option. There are simply not enough regulated spaces

to meet demand, and for the majority of families those that are available are beyond their financial reach. The lack of availability of regulated care is particularly acute for infants and school-age children, for those who live in rural communities, and for children with special needs. Kindergarten is universally accessible, but not until children are 4 or 5, and then only for part of the day.

The available supply of regulated child care—including regulated centre and family-based child care, nursery school, and after-school spaces—fails to meet the need of more than 90% of children in Ontario. In more than 70% of families, mothers are in the paid labour force. Yet available spaces would only meet the needs of 10% of their children.

### **Best Start: Making the first steps count**

The task ahead is undeniably ambitious. We lag behind most other industrialized nations in quality child care and behind Quebec, which has taken considerable steps towards a universal child care program since it introduced a systematic and comprehensive child care plan in 1997.

With its Best Start Plan, Ontario has taken the first steps towards rebuilding a broken system that still does not work for too many families. Ontario has already moved to:

- restore eligibility for child care subsidies for families with RRSPs and RESPs;
- remove eligibility restrictions for subsidies to assist parents looking for work;
- direct school boards to incorporate space for child care centres in every new school in the province where appropriate;
- suspend the municipal cost-sharing requirement (20% of total costs) of all new child care spaces under Best Start for next 5 years, which addresses a real concern

that saw municipality after municipality stopping, or threatening to stop, delivering child care because of increasing inability to match funds; and

- set aside \$106 million to enhance wages—again, a good start, but still not the move towards direct funding of programs, including enhanced dollars to fund better wages and working conditions.

These are positive steps. Other areas for immediate action still required include the need to enhance eligibility for child care subsidies to assist student parents; amending the education funding formula to ensure that space for existing and new child care programs in schools is available to not-for-profit groups at no charge; and addressing the issue of increasing wage gaps in the proxy pay equity sector.

While these measures are of great importance in the short term, a strategy for child care in Ontario requires bolder steps and visionary leadership.

### **Starting strong: The OAB plan for early learning and child care**

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.

Ontario's strategy as proposed in the OAB gives the province an opportunity to expand on its Best Start plan and build towards a much-needed, ambitious early learning strategy in Ontario.

Our vision is to build an infrastructure that ensures all children in Ontario have access to a universal, affordable, publicly funded, not-for-profit, base funded early learning and care system. To get to this vision we must start building now, with or without a federal partnership.

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.

All of these funds will be applied to the transformation and expansion Ontario's child care system. The system proposed by the OAB will be driven by our vision: community-based and non-profit, providing services that meet the diverse and distinct needs of different communities and families. Services will be universally accessible, regardless of children's abilities, cultural or linguistic backgrounds or regional circumstances, and regardless of family income or parents' employment status.

The OAB plan will be phased in, with services for children aged 0–3 and school-age children up to age 12 being expanded at the same time that 4- and 5-year-olds make the transition to a full kindergarten program. By Year 10, all children aged 0–12 will have universal access to high quality early learning and care.

### **Staying on track: Step-by-step to a child care system**

To stay on track, the OAB proposes a plan that includes goals and objectives, timelines and tar-

gets, and review and evaluation strategies. In the first two years of this plan, the OAB will take the following steps:

1. Establish and pass framework legislation to establish a comprehensive system of high quality early learning and care services and enshrines the principles of quality, universality, accessibility, inclusion and developmentally appropriate programming in provincial law.
2. Begin Quebec-style phase-in of direct funding and 100% funding of child care delivered by municipalities. Set the following targets for entitlement to universal services: 5 and 4-year-olds by year 2 (2006); 3-year-olds in year 3 (2007); 2-year-olds in year 4 (2008); and infants in year 5 (2009). In addition, develop targets for entitlements to before- and after-school services for children aged 6–12.
3. Begin the transition to a public/ non-profit system that ensures every dollar of public money should go directly into services. Non-profit child care services provide equitable access, are accountable to governments and taxpayers, and are developed in a way that responds to the real needs of families and communities.
4. Introduce a redesigned, integrated, full day, full school year, junior and senior kindergarten program, including a 6-hour core that is free to parents as a universal service.
5. Resources to create school board capacity for all 4- and 5-year-olds in existing junior and senior kindergarten integrated program in the next three years, and making it a priority for all new schools. New kindergarten programs could be put in off-school sites if this better meets community needs.
6. Set a flat parent fee for extended hours before and after the 6 free hours, PD days and sum-

mer hours, that will be based on affordability as defined by 20% of total program costs. Fee supplements will be available for families for whom even a small fee is a barrier.

7. Strengthen and expand the current system for 0–3. Until year 3 of our program, 3-year-olds would still use the subsidy system; 2-year-olds until year 4; 1-year-olds until year 5; under 1 year of age until year 6.

8. Develop new qualifications, salary scales and a 10-year training strategy for staff delivering early learning and care programs, and assessment and evaluation mechanisms to ensure staff meet occupational standards.

9. Other components of the OAB’s plan:

- Retain and strengthen the Ontario Kindergarten Program for all new integrated full-day programs with a focus on strengthening support for teachers and staff conducting these programs.
- Put in place tools to evaluate the baseline of the current system for rating and monitoring all programs, including new ones receiving base funding.
- Set up an independent task force/commission to hold province-wide consultations in partnership with key stakeholders to determine government jurisdiction and the authority responsible for delivery of services, and the content and scope of legislation.

In subsequent years, the OAB will continue to allocate funding to strengthen and expand a new hub system for 0–3 year olds to catch-up to increased demand while expanding before- and after-school services for children aged 6–12.

We will also implement early learning and care hubs which will eventually combine all programs in a geographical radius into one hub to coordinate all services.

Our plan in the long-term will also see the end of the existing subsidy system, while introducing a mechanism to support access for those parents for whom a parent fee for extended hours is still a barrier.

As an integrated system for children of all age groups comes on line, we will focus on expanding services and improving quality. The expanded service target is half of the child population 0–12 by the end of year 10.

The longer we put off our investments the further we will be from honouring our promises to children and families and securing Ontario’s future success. The time has come to begin implementing meaningful changes that will transform the fragile patchwork of early learning and child care services in Ontario into a coherent and comprehensive system that works for children and families.

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.

Child care	\$ million
Replace and match canceled Federal care funding over two years	1,080
<b>TOTAL</b>	<b>1,080</b>



## 6 Elementary and Secondary Education

### Poverty and education

“There are many demands for priority on the time and resources of government. And the case for children therefore bears repeating. It is the fundamental responsibility of government to protect the vulnerable and to protect the future. Children are both. Protecting children from the sharpest edges of poverty during their years of growth and formation is therefore both a mark of a civilized society and a means of addressing, at a more than superficial level, some of the evident problems that affect the quality of life in the economically developed nations.”<sup>60</sup>

Though our nation has registered unprecedented economic prosperity in recent years, Canada ranks 19 out of 26 OECD nations in child poverty levels. In Ontario, there are 443,000 children living in poverty, 16%. This has an impact on education. There is much that we can do to improve the education that our most vulnerable students receive: ensuring more funding for second language learning; improving the learning opportunities grant to meet the real needs of children living in poverty; ensuring literacy, music, and other resources for all schools — without having to resort to fundraising.

But we must also be aware of the fact that “children live nested lives.”<sup>61</sup> To improve the education of children living in poverty, we must address all aspects of their lives. Berliner states, “A healthy childhood environment supported by adequate family economics is an amalgam of many factors, but probably includes a regular supply of nutritious food, stability in feelings of security, quick medical attention when needed, high quality child-care, access to books and exposure to rich language usage in the home, and so forth.” In other words, many other priority areas of the provincial government and public services interact with the education system. We cannot work in isolation. When we call for better housing, this has an impact on children and the education they receive. When we call for more appropriate social assistance rates, this allows parents to ensure children have a safe environment, nutritious food, rich learning opportunities. This, too, has an impact on the education our children receive. Children live both inside and outside of the school environment. Our actions must also live inside and outside of schools.

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.

### **Funding the actual cost of employing teachers**

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.

This calculation does not take into account the impact of underfunding of teacher salaries generated by grants other than the Foundation Grant. Including the teachers implied by these budget allocations would increase the estimated shortfall by a further \$500 million.

### **Funding adequate standards for school operations and maintenance**

As it was originally conceived, the provincial funding formula short-changed school operations in four respects. First, school operations and maintenance were funded at a level substantially below provincial average costs in 1997. Second, those initial inadequate funding levels failed to keep pace with increases in costs. Third, the space for which funding was provided was based on a uniform provincial standard per student that took

no account of the physical characteristics of the buildings actually operated by boards. Fourth, funding allocations took no account of geographic differences such as local labour market conditions, climate and age and condition of existing school buildings.

In practice, this formula has driven unnecessary or shortsighted school closures and forced boards to both siphon funds out of other program areas and allow maintenance standards to deteriorate.

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 adult education as if it mattered**

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.

### **Re-thinking the funding formula**

While the Rosanski review of elementary and secondary education in 2002 recommended that the non-salary benchmarks in the funding formula be updated to reflect changes in cost since they were established in 1997, it did not evaluate the adequacy of the benchmarks themselves.

Rather than simply update those benchmarks to reflect cost changes, this year's OAB will integrate a first-principles review of all of the non-salary benchmarks into an overall review of the funding formula. The focus of the review will be

on what is needed to deliver the quality of education that the people of Ontario expect from their school boards. It will be driven not by body counts, but on accepted standards of what is needed at the classroom, school and system levels to make our education system as effective as it can be.

<b>Elementary and secondary education \$ million</b>	
Fund actual cost of employing required teachers and other staff	650
Fund actual cost of school operations	235
Fund adult education at same rate as for secondary	140
<b>TOTAL</b>	<b>1,025</b>



## 7 Post-Secondary Education

When tuition fees were frozen in 2004, Ontario average tuition fees were the second highest in the country for undergraduate students and the highest for graduate students. Over the previous 15 years, both college and university tuition fees had tripled. Today, average undergraduate tuition fees stand at nearly \$5,000 per year while average college tuition fees are about \$2,000 per year.

On March 8, 2006 Training, Colleges and Universities Minister Chris Bentley announced that over the next four years, tuition fees would be increasing by more than 20% on top of the double digit tuition fee increases that Ontario families experienced during the mid-1990s. By contrast, the previous Mike Harris government at the end of its term had limited average annual college and university tuition fee increases to just 2% per year.

Under the new tuition fee framework fees for all graduate studies and professional programmes like medicine, law, dentistry, dental hygiene, and computer animation will be increasing by 8% in the first year of the programme, followed by 4% increases in each subsequent year. Worse still is that under this scheme, students entering their first year of a professional programme in 2009–10 (four years from now) could very well face tuition fees that are 36% higher than they are today.

In fact, if tuition fees rise in accordance with the vision set out by the McGuinty government, by

2009–10, one year of medical school at the University of Toronto will cost nearly \$20,000 — \$3,400 more than in 2005–6 and four times what they were in 1998. College programmes like dental hygiene — already over \$10,000 per year — will see fee hikes over \$1,200 in just two years. Given that fees for dental hygiene in 1998 were only \$1,400, this represents an 800% increase in the fees for this college level programme in less than a decade.

In an effort to deflect public anger over these fee hikes, the McGuinty government is pointing to its record on student financial assistance, arguing that “more assistance” has been made available to “more families.” However, these claims deserve more scrutiny.

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.

Only first- and second-year students are eligible for the Ontario grant programme of up to \$3,000 or 50% of tuition fees, whichever is lower. Students pursuing high-fee programmes like law, medicine and dentistry with prerequisites of more

than two years of post-secondary education will not be eligible for the grants, despite the fact they will be paying much higher fees and accumulating more debt. Moreover, not a single graduate student or part-time student will qualify for grants. The vast majority of undergraduate and college students who are already in the system are ineligible.

When the new Ontario grant programme was first introduced only extremely poor students—those with family incomes less than \$22,615—qualified for the full grant of \$3,000, and only first- and second-year students were eligible. Last year, according to statistics provided by the Ministry of Training, Colleges and Universities, a mere 14,240 dependent students qualified for the first-year Millennium/Ontario Access grants and an additional 12,723 second-year students qualified for an Ontario Access Grant with average disbursements of \$1,621 and \$1,595 respectively. Considering that there are about 600,000 college and university students in the province, less than five percent of the total student population was eligible for the grants last year.

Moreover, the tax back rate applied to those with annual incomes of between than \$22,615 and \$35,000 was so steep that a family of four with a household income of over \$35,000 would not qualify for even a penny of “grants.”<sup>62</sup>

The obvious paucity of the grant programme combined with the unpopularity of tuition fee increases (over 80% of Ontarians have consistently been opposed to such hikes) to force the McGuinty government to extend eligibility. Under the new proposal, only first- and second-year students will be eligible, but now families with incomes of less than \$75,000 per year can qualify for some portion of the available grants. As in the previous programme, the grants will be reduced for students with incomes of more than \$30,000 but less than \$75,000. This measure, the government states, will result in an additional 27,000

students qualifying for grants, bringing the total number of grant recipients to about 54,000. If correct, the number of students eligible for grants will increase from under 5% to less than 10%. The remaining 90% of students not qualifying for grants will still be expected to pay higher tuition fees.

The chorus of accolades from university presidents and other cheerleaders like Bob Rae who have been campaigning for high fees base their position in part on the claim that tuition fee increases have no impact on access to education.

This argument is dangerous at best and dishonest at worst. Here’s why: times have changed over the past 15 years and today it is estimated that eight out of every 10 new jobs will require post-secondary education. As a result of this phenomenon there is growing aggregate demand for higher education. Yet the gap in participation rates between high-income and low-income families remains shamefully high and has not improved at all over the past 20 years.

The children of high income parents are still twice as likely as the children of low-income parents to pursue university education. According to Statistics Canada, as of 2002, 83% of college or university age children from high-income families were enrolled in post-secondary education. This chronic gap in participation between high and low-income families should be alarming for any policy-maker concerned with the economic competitiveness of Ontario’s workforce and ultimately, its future tax base.

The suggestion that high fees have had no impact on access ignores the emerging evidence to the contrary.

First, the Department of Epidemiology at the University of Western Ontario undertook a study to determine the effect of deregulated tuition fees on accessibility. By the fourth year of the study, when tuition fees had risen to over \$10,000, only 7.7% of students hailed from homes of family in-

come of less than \$40,000. As a result of deregulated tuition fees, there was a 50% decline in the participation of low-income students.

Analysis based on surveys of physicians and medical students across Canada in 1997, 2000 and 2004 reveals similar changes in participation by students from lower-income families and adds some provocative data on changes in accumulated debt and career choices over time as tuition has increased.<sup>63</sup> Last September, Statistics Canada released a report that demonstrated an alarming 50% decline in the likelihood of middle-income students enrolling in high-fee programmes like law, dentistry and medicine.

### **Rising fees don't improve quality**

Although the new funding announced last year is desperately needed and welcome, the fact is, the McGuinty "Reaching Higher Plan" will at best allow Ontario universities to reach for mediocrity. This is because once the new funding has been phased-in by the year 2009–10, the training, colleges and universities budget will only be \$1.2 billion more than it was in 2004–5 and bring Ontario's post-secondary education funding up to the current national average.

While the Ontario government has made much of its \$210 million Quality Improvement Fund, in reality, if disbursed equally among all 58 public colleges and universities, this would amount to approximately \$3.6 million per institution: not enough to restore student-faculty ratios; hire additional support staff; or improve services to students.

The Ontario Confederation of University Faculty Associations points out the following:

Between 1995–6 and 2004–5 real funding per student was cut by 19%.<sup>64</sup> As a result of underfunding, Ontario hovers near the bottom in many core comparisons with other

Canadian universities: Ontario still scores tenth and dead last in the country in terms of per capita funding to its universities; it is ninth in terms of per student funding; it has the worst student-faculty ratio and some of the largest classroom sizes in all of Canada.<sup>65</sup>

In the college sector, under-funding is also felt acutely. Ontario colleges receive the lowest per-student public funding in all of Canada. In Ontario, over the past 15 years, real per-student government funding has declined by 41%. Over the same period, enrolment has increased by 53%.

As with universities, underfunding has meant fewer full-time faculty for Ontario colleges. In fact for every 2% increase in enrolment, there has been a corresponding 1% decline in the number of full-time faculty teaching students.

This is an urgent and pressing matter. Ontario needs to hire 11,000 new university professors within the next four years to replace retiring Baby Boom faculty and meet growing enrolment demands. Faced with years of underfunding, universities and colleges have resorted to hiring part-time and sessional instructors rather than full-time tenure-stream faculty. That is a stop-gap measure that places greater burden on new faculty forced to teach under uncertain circumstances with growing workload pressures and no guarantees of the academic freedom which comes with tenured positions. Additional support staff is also needed in our universities and colleges. Reducing Ontario's student-faculty ratio, which is the worst in Canada, and reducing class sizes, which are also among the worst in Canada, should be a top priority for a government claiming to want to improve quality in post-secondary education.

Finally, for a government claiming to want to increase university and college participation — especially among families who have never before sent a child to get a post-secondary education — its high tuition fee policy will work at cross-purposes

with its stated access goals. Sadly, the government has just made a lot of students' dream of a university education go up in smoke.

### **Back on track for postsecondary education that is accessible, affordable and public**

This year's OAB will 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.

<b>Post-secondary education</b>	<b>\$ million</b>
Increase funding to national average over two years	900
Continue tuition freeze	225
Enhance student grant program	140
<b>TOTAL</b>	<b>1,265</b>



## 8 Renewing Public Infrastructure

Public infrastructure is a pivotal underpinning in Ontario's quality of life, the provision of public services and the province's economic competitiveness and productivity. Low-income residents are most dependent on high quality public services and infrastructure. They cannot purchase substitutes in the private market. They are the ones who fall through the cracks when public support crumbles.

That Ontario faces a crisis in public infrastructure has been obvious for more than a decade. The evidence of the wide and growing gap between what we need and what we have is uncontested. And the basis of the problem — underinvestment by the provincial government and the agencies for which it is ultimately responsible — is equally obvious.

What is surprising is the government's failure to come to terms with the problem. The Ministry of Public Infrastructure Renewal, charged with solving the crisis, has issued reports quantifying the shortfall and proposed principles for infrastructure investment. A five-year \$30 billion plan was announced in last year's budget. That sounds like a substantial commitment, but it is barely half the need.

Furthermore, the mechanism the government has chosen to use to deliver its capital program raises questions about its affordability and its ability to deliver the infrastructure investments

it promises. Rather than committing public dollars to meet public infrastructure needs, the Ontario government appears to be increasing its reliance on the notion of some magic, undiscovered pot of private-sector money out there which will become available through public-private partnerships (P3s) or, in the latest government-speak, Alternate Financing and Procurement (AFP).

Ontario's original five-year \$30 billion infrastructure plan projected that 10% of investment would come from private financing through AFPs. The Minister, on the other hand, seems to have bigger plans for the private sector, telling a business audience "The choice is not between building the infrastructure we need using the traditional method or building it using alternative financing. The choice is between building it now, using AFP, or not building at all until some point in the indeterminate future."<sup>66</sup>

The five-year infrastructure plan includes hospitals, highways, transit, housing, municipal water systems, bridges, roads, school boards, long-term care facilities and post-secondary education. The areas earmarked for major AFP projects are "hospitals, the justice sector and other areas."<sup>67</sup> It appears that no area of public service is safe from P3s or AFPs.

Despite the repeated pronouncements, the Government has experienced considerable difficulty in getting its private sector based capital

program off the ground. When the government department it created to run the program pointed to high borrowing costs as a problem with P3s, the government created a new crown corporation with a majority of private sector directors to oversee large AFP projects. This Ontario Infrastructure Projects Corporation will also have responsibility for the Ontario Strategic Financing Authority (OSIFA), the program providing municipalities, universities and other public sector institutions with access to low-cost long-term loans. Infrastructure Ontario, as it is called, illustrates in itself the hidden costs and lack of accountability of P3s by removing decision making about major infrastructure projects to an arms-length, unelected body. That's one way to avoid awkward financial facts.

The Liberal government has completely reversed its opposition to the commercialization of Ontario's infrastructure. In the past year the Minister of Health has announced more than two dozen new hospital P3 projects. The Ministry of Public Infrastructure Renewal is considering how to respond to recommendations from a panel chaired by Harry Swain that water and wastewater services be restructured to the level of regional governments or something equivalent so that they can be profitably privately delivered.

Last year's OAB detailed the disadvantages of building infrastructure through P3 projects compared to publicly financed projects:

- less transparency, public control and accountability;
- project costs are increased by 15% to 50% through the higher borrowing rates charged to private investors and by the profit margins rolled into project costs by private sector financiers and developers; and

- profits for the private investors are also likely to be generated through reduction in quality of the service, cuts in service, cuts in employment and/or the introduction of user fees for some services.

Cuts in publicly available services and increases in user fees will always hit lower-income residents hardest. They cannot substitute privately purchased services for public services.

Until the current fiscal years P3s had some accounting advantages for the provincial government. Beginning with the 2005–6 Public Accounts and the subsequent 2007 Ontario Budget, the province's financial statements will incorporate the bottom-line financial results of school boards, colleges and hospitals. As a result, the assets in these sectors will be capitalized and amortized, effectively spreading the cost of the assets over their useful lives on the province's books.<sup>68</sup>

According to Statistics Canada, Ontario's public infrastructure is valued at \$240 billion. The Government of Canada owns approximately 12%. The rest — an estimated \$211 billion — is either owned directly by the provincial government or owned by transfer payment agencies for which the provincial government is ultimately responsible.

Just to maintain this capital stock in a state of good repair through life cycle replacement is estimated to cost 3% of the value of the stock, currently about \$6 billion a year. That amount will tend to increase over time as the size of the capital stock grows and as repair and replacement unit costs increase.

It will take additional annual investments of 3% of the value of infrastructure stock to meet increased demand generated by economic growth. Annual capital expansion requirements will require an investment of another \$6 billion, indexed to unit costs. And these numbers do not address the backlog of deferred maintenance and unmet needs for new facilities created by prior years'

funding constraints. Of this \$12 billion requirement, approximately \$5.3 billion is provided for in the current provincial budget.

This year's OAB invests an additional \$6.7 billion in infrastructure renewal to meet this requirement.

<b>Infrastructure renewal</b>	<b>\$ million</b>
Increase infrastructure investment to \$12 billion/year target (capital) [see program summary for annual expense associated with capital investment program]	6,700
<b>TOTAL</b>	<b>6,700</b>



## 9 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. Food banks and food programs; hostels and social housing; subsidized child care; well baby programs; literacy and ESL programs in the schools and in the communities; public transit; public recreation programs for kids and adults; public parks; libraries with free access to the internet — all are municipal or municipally-supported services critical to low-income residents.

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. The Association of Municipalities of Ontario (AMO) calculates that municipalities

spend \$3 billion annually on provincial health, social services and income redistribution programs. That amount doesn't include the funding vacated by the province in the past few years to provide land ambulance services, public transit capital and operations costs, child care expansion, public housing or social infrastructure. It amounts to more than \$30 billion taken from municipal budgets over the past 10 years.

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.

The provincial government has already announced that it will resume 75% (up from 50%) of public health funding by 2007/8 at a cost of \$273 million in this budget and \$469 million in the next. Land ambulance funding will be restored to 50% (up from 38%) by 2008, increasing to \$333 million in 2006/7 and \$385 the following year. (Prior to 2000 land ambulance was 100% provincially funded.)

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.

## 10 Paying Down Ontario's Environmental Deficit

Public health, an efficient economy, and our children's future: all of these depend on a clean environment.

Repeated public opinion polling shows that a huge majority of Ontario citizens support strong environmental laws, even in times of recession and government deficit cutting.

Yet one of the Harris Eves era's most dubious achievements was the undoing of the entire environmental protection regime in this province. Its four-part strategy — dismantle environmental laws, weaken the role of government, shut out the public, and sell off our natural heritage — essentially crippled the province's ability to regulate environmental quality in the public interest.

When the people of Ontario "chose change" and elected a Liberal government in 2003, they wanted to see the restoration of environmental protection, policies and programs to significantly reduce pollution and improve public health, and a public power system that will meet Ontario's future energy needs in environmentally sustainable ways.

In their first year in government the Liberals appeared to take small steps in the right direction — the promise of a share of the gas tax for public transit, clean water programs and funds, water-shed based source protection programs, some protection of farm lands and environmentally sensitive areas, a promise to close pollut-

ing coal-powered electricity generating plants by 2007 and increased targets for municipal waste diversion.

There has been no real gain in Ontario's capacity to monitor environmental performance or to implement new standards that are badly needed. An effective environmental policy must start by reinstating the enforcement and planning capacity in both the MOE and MNR. This year's OAB is committed to doing that.

Ontario pays a tremendous price every day for our failure to regulate environmental quality. The Ontario College of Family Physicians is concerned that in southern Ontario Canada's highest levels of smog, caused by urban sprawl, automobiles, industry and coal-fired power plants, on both sides of the Canada-U.S. border, cause premature deaths for up to 6,000 Ontarians each year.

To have any serious impact on air quality issues, this government has to make funding for public transit a priority, rather than new spending on highways. Successful public transit systems require greater contributions from senior levels of government than we now see in Ontario. Senior government funding for transit operations in Ontario is totally inadequate. Our transit systems are more heavily dependent on the fare box for operating finances than virtually any other transit systems in the world.

## The case for public power

Ontario's energy system has a profound impact on the quality of our environment, as well as the strength of the province's economy. The Liberal government is headed down the same path as the Harris-Eves Conservatives, but with more stealth. By requiring that all new power come from private sources — power to replace the coal plants as they are closed, limited development of renewable power sources, power to replace aging nuclear plants reaching the end of their lives, and power to meet any growth in demand — the government's electricity policy will result in the piece-by-piece privatization of all of Ontario's electricity generation within 20 to 25 years

Private power is more expensive than public power. It will add to the cost of doing business in Ontario and to the cost of providing public services. The government intends to put the cost of long-term, guaranteed-profitable contracts with private companies building new electricity generation facilities right onto our power bills. If the people of Ontario are going to pay for the new plants, they want to get the best deal and they want to own them when they're paid for.

Building increased generating capacity is not the best energy investment for Ontario to ensure that the people of this province have an affordable, accessible, reliable energy supply for the future. The first step must be investments in energy efficiency and conservation. The government is proposing to spend \$1 billion over the next 5 years to install "smart meters" in each home in Ontario, charging everyone \$3 or \$4 extra per month, every month for all time, to pay for them. "Smart meters" and time-of-use pricing don't save power, they allow consumers to rearrange their power usage. There is no evidence that consumers will even be able to save the amount needed to cover the cost of the meters. That \$1 billion is better

spent on serious energy efficiency and conservation programs.

Investments in energy efficiency have been found to produce four times more jobs than equivalent spending in new supplies of conventional energy. We are lagging behind Europe and Japan in utilizing new energy-efficient technologies and techniques, even though these new approaches could reduce energy cost, improve air quality, improve public health, stimulate new industries, and create new jobs. We support implementation of the Low Income Conservation Program proposed by the Low Income Energy Network. That program is funded through electricity bills.

## An environmental plan to live by

This year's OAB calls for \$200 million — funded from provincial general revenue — for new programs supporting energy conservation and efficiency.

Many of the ideas we can use have already been developed in other jurisdictions around the world. In these days of rising worldwide temperatures and shrinking ice caps, what we need in Ontario is the political will to take on our environmental deficit for the crucial challenge it really is. This budget would be an important first step in the right direction and provide a base for much more innovative and creative solutions for the future.

This year's 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.<sup>69</sup> Any special projects such as new "smart cards" and new subway construction would require additional funding. This additional funding would be conditional on the withdrawal of all P3 transit plans, such as the ones proposed for York Region and Ottawa. These plans accomplish nothing that normal government borrow-



ing could not accomplish, at a substantially higher cost, and at the expense of public accountability.

As a first step, this year's OAB will revert to the funding formula that existed prior to the cut-backs imposed by the Conservative government in the mid-1990s. Under this interim arrangement, transit fares would be expected to cover 70% of operating funds, with subsidies of 15% of operating costs from each of provincial and municipal governments. This support would be over and above local governments' revenue from federal and provincial gas tax sharing. Capital costs would be shared equally between federal, provincial and municipal governments.

This year's OAB will also increase funding for environmental regulation and enforcement in the Ministries of the Environment and Natural Resources \$200 million in the next year.

<b>Environmental investments</b>	<b>\$ million</b>
Increased capacity for regulation and enforcement	200
Clean Water Fund (capital)	250
Transit operations	105
Transit capital	200
Energy conservation and efficiency programs	200
<b>TOTAL</b>	<b>955</b>



# 11 Program and capital summary

**TABLE 2 Operating Expenditure Summary**

Operating expenditures	2006-7		2007-8		2008-9	
	Detail		Detail		Detail	
<b>Income Security</b>						
Community social infrastructure.	225			-		
Employment standards enforcement	25			-		
End download of social assistance	400		400			
Increase OW and ODSP benefits to match Market Basket Income	1,850					
End claw-back of Federal Child Tax Benefits	250	2,750		3,150		3,150
<b>Housing</b>						
Province re-assume responsibility for housing	600					
Rent supplements for new & existing housing (37,000 units)	220	820		820	-	820
<b>Early years and child care</b>						
Early learning and child care	520	520	560	1,080	-	1,080
<b>Education — Elementary and Secondary</b>						
Actual cost of employing teachers	650					
Actual cost of school operations (1997 updated)	235					
Adult education	140	1,025		1,025	-	1,025
<b>Education — Post-secondary</b>						
Increase funding to national average	450		900			
Continue Tuition Freeze	225					
Student Grants Program	230	905	-	1,805	-	1,805
<b>Health Care</b>						
Health care salary equalization	975					
Expand Trillium Drug Plan	-	975		975	60	1,035
<b>Environmental Protection</b>						
Environmental regulation — Environment and Energy and MNR	200					
Transit operating support	105					
Energy conservation and efficiency programs	200	505	-	505		505
<b>Total program funding increase, 2006-7 to 2008-9</b>	<b>7,500</b>	<b>7,500</b>	<b>1,860</b>	<b>9,360</b>	<b>60</b>	<b>9,420</b>
<i>OAB expenditures already in budget</i>						
Child care		64		64		64
Social assistance		80		80		80
OAB program spending offsets		144		144		144
<b>Program funding increases proposed</b>		<b>7,356</b>		<b>9,216</b>		<b>9,276</b>

**TABLE 3 Infrastructure investment summary**

	<b>2006-7</b>	<b>2007-8</b>	<b>2008-9</b>
<b>Infrastructure fund</b>			
Maintain state of good repair	6,000	6,000	6,000
Additional spending to keep pace with growth	6,000	6,000	6,000
Total annual capital	12,000	12,000	12,000
Infrastructure in current plan 2006-7 to 2008-9	-5,300	-5,300	-5,300
Net amount to be financed	6,700	6,700	6,700
<b>Annual amortization</b>			
Current year amortization (20-year) — half year	168	168	168
Prior year amortization	-	335	670
Total amortization reported as capital	168	503	838
<b>Cost of capital</b>			
Current year interest costs	151	151	151
Prior year interest costs		302	603
Interest costs associated with capital program	151	452	754
<b>Budgetary expense</b>			
Amortization	168	503	838
Interest	151	452	754
<b>Total cost</b>	<b>318</b>	<b>955</b>	<b>1,591</b>

## 12 Fiscal Framework and Revenue Measures

The fiscal framework for the Ontario Alternative Budget for 2006–7 takes as its starting point the three-year outlook presented by the Government in its 2006–7 budget.

That framework is reproduced in Table 4.

This forecast builds in a number of excessive prudence factors for which we adjust in the OAB fiscal framework:

- The government is projecting on the basis of an increase in its expenditure reserve in 2007–8 from \$1.0 billion to \$1.5 billion. Given the fact the budget already contains more than \$1 billion in contingency funds buried in program expenditure forecasts, and in light of the fact that even the cur-

rent reserve was more than adequate even in the SARS budget year to cover incremental expenditures, we revert to the \$1 billion reserve Ontario has traditionally used.

- The government has consistently overestimated the costs of servicing Ontario's debt. That practice continues in the current forecasts, with debt service forecasts that imply an increase in average interest costs from 6.33% in 2005–6 to 6.55% in 2008–9. In light of the fact that Ontario's current borrowing rate is less than 5%, this is not a reasonable assumption. The OAB adjusts debt service costs to reflect realis-

**TABLE 4 Budget 2006–7 fiscal plan and outlook**

**Medium-term fiscal plan and outlook (\$ Billions)**

	<b>Interim 2005–06</b>	<b>Plan 2006–07</b>	<b>Outlook 2007–08</b>	<b>2008–09</b>
<b>Revenue</b>	<b>83.9</b>	<b>85.7</b>	<b>90.3</b>	<b>94.0</b>
<b>Expense</b>				
Programs	76.2	77.7	80.6	82.6
Interest on Debt	9.1	9.4	9.7	9.9
Total Expense	85.3	87.1	90.3	92.5
Surplus/(Deficit) Before Reserve	(1.4)	(1.4)	0.0	1.5
<b>Reserve</b>		<b>1.0</b>	<b>1.5</b>	<b>1.5</b>
Surplus/(Deficit)	(1.4)	(2.4)	(1.5)	0.0

**TABLE 5 OAB fiscal framework**

	<b>2006–7</b>	<b>2007–8</b>	<b>2008–9</b>
<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>

tic estimates of interest on new debt and to reflect the substantial savings that arise from the maturing of high-interest previously-issued debt.

- The government includes in its budget an acceleration of the scheduled reduction of the corporate capital tax. The OAB takes the position that it is inappropriate to accelerate the reduction of the capital tax in light of the fact that no viable substitute has been found to deal with the problems in the taxation of financial institutions which the capital tax was largely intended to address.
- The government has chosen to base its fiscal planning on economic growth assumptions that are well below the consensus of private forecasters. In addition, estimates for a number of major revenue sources are not consistent even with these reduced growth assumptions. The combination of these two factors virtually guarantees a re-

peat of the ‘surprise’ revenue windfall that appeared at the end of the 2005–6 fiscal year. We believe it is appropriate to base revenue estimates on what you actually expect to generate and to budget its allocation at the beginning of the year, rather than engage in creative accounting at the end of the years. The OAB re-estimates revenue based on the average of the private sector forecasters whose forecasts actually extend for the full outlook period.

Table 5 presents the OAB fiscal framework, as adjusted.

The adjustments to the government’s fiscal forecasts amount to \$2.4 billion in 2006–7, \$3.2 billion in 2007–8 and \$3.8 billion in 2008–9.

As noted above, 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

**TABLE 6 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
Corporations Tax	Small Business	0.0	0.0	0.0
<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>Federal Tax Room</b>				
Sales Tax	1%	0.0	0.0	0.0
Total additional revenue		5.4	7.0	7.2

billion in 2008–9. The additional revenue sources are summarized in Table 6.

At present, the Employer Health Tax includes an exemption for employers with payrolls under \$400,000. While this is touted as a benefit for small business, it is extremely poorly targeted.<sup>70</sup> Furthermore, the OAB believes that it is important that all businesses pay a share of the costs of Ontario's public health insurance system. That system constitutes a formidable competitive advantage for Ontario business, particularly in relation to businesses in the United States.

Accordingly, the OAB proposes that the EHT be made a flat rate tax, with no exemptions, tied to 20% of health care budgetary costs. This change would be phased in, with the elimination of the exemption in the first year and the move to the 20% share — equivalent to a tax rate of 2.4%, compared with the current 1.95% — in the second year.

Middle-income Ontarians have already made a substantial contribution towards the rebuilding of Ontario's fiscal capacity through the Health Premium. The OAB proposes to parallel the structure of the Federal personal income tax by adding a new tax bracket, beginning at an individual

income of \$100,000 per year, 2% above the current top rate. Under this proposal, an individual with an income of \$110,000 per year would pay an additional \$200 per year; an individual with an income of \$200,000 would pay \$2,000 more.

The OAB also proposes to restore Ontario's corporate tax rates to their level prior to the cuts introduced in 2000. Rates would increase as follows:

- general rate, from 14% to 15.5%;
- manufacturers' rate, from 12% to 13.5%; and
- small business rate, from 5% to 8.5%.

Tobacco tax rates will be brought into line with the rates applicable in BC and Alberta — \$32 per carton.

The gasoline and motor vehicle taxes will be increased by 2 cents per liter to pay a portion of the cost of improvements to roads and transit in the OAB program.

Finally, the OAB expects, conservatively, to realize a 1% increase in taxation revenue from tighter administration of the tax system. Despite re-

peated adverse comments from various Provincial Auditors, Ontario's tax audit density continues to be lower than that needed to ensure compliance. The result is the most unfair kind of tax system: one which permits some taxpayers to avoid paying their share of taxes at the expense of others.



# Notes

- 1 Statistics Canada, 2001 Census.
- 2 Statistics Canada, Custom Table R16253YC-1, 1999.
- 3 The poverty line referred to here is Statistics Canada's pre-tax, post-transfer 2005 Low-Income Cut-Offs.
- 4 Ministry of Labour, "McGuinty Government Helps Lowest-Paid Workers," 2005.
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- 9 Vosko, Leah. "Precarious Jobs: A New Typology of Employment." Perspectives, Statistics Canada 2003.
- 10 Using LICOs as a measurement of adequacy also reveals that social assistance rates are inadequate.
- 11 Market Basket Measure produced by Social Development Canada, updated using CPI to 2005 amounts, reflecting Ontario averages.
- 12 Calculations based on single with child under 12 years age.
- 13 Calculations based on single with one child under 12 years of age and one child over 12 years of age.
- 14 Calculations based on single with two children under 12 years of age and two children over 12 years of age.
- 15 Based on single with two children under 12 years of age and one child over 12 years of age.
- 16 Based on disabled person and spouse without a disability.
- 17 Calculations based on couple with child under 12 years age.
- 18 Calculations based on couple with one child under 12 years of age and one child over 12 years of age.
- 19 Calculations based on couple with two children under 12 years of age and one child over 12 years of age.

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- 70** See OAB 2005–6 Appendix III for additional details.