Public Sector Compensation in Ontario

July 20, 2010
Overview

• Strong investment in public services and public sector employment gains over the past decade, fuelled by strong revenue growth

• Global economic crisis opened significant fiscal gap as revenues declined and short-term investments stimulated the economy

• The government’s fiscal plan moves to a balanced budget over time while protecting public services
Revenue growth strong before the recession hit

**Average Annual Growth Rates**

2003-04 to 2007-08

- **Nominal GDP**: 4.4 per cent
- **Revenue**: 8.7 per cent

*Source: Statistics Canada and Public Accounts of Ontario.*
Growth enabled investments in programs

Average Annual Growth Rates by Program Sector 2003-04 to 2008-09

A strong economy allowed for investments in programs that outpaced population growth and inflation.

Population growth plus inflation averaged 3.1%

Growth also allowed for larger settlements

Public Sector Settlements
Average Annual Growth

Per Cent

<table>
<thead>
<tr>
<th>Period</th>
<th>Growth</th>
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<tbody>
<tr>
<td>1991-1995</td>
<td>1.9</td>
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<tr>
<td>1996-2003</td>
<td>2.0</td>
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<tr>
<td>2004-2009</td>
<td>2.9</td>
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Source: Human Resources and Skills Development Canada.

Public sector settlements in recent years were larger than in the preceding periods.
Public sector workers made real gains

Ontario Public and Private Settlements
Total Growth from 2004 to 2009

Public sector settlements have outpaced private sector settlements

Source: Human Resources and Skills Development Canada and Statistics Canada.
The economic environment has changed ...
The economic environment has changed

• The scope and scale of the global economic crisis that began in the fall of 2008 were both dramatic and unanticipated by all jurisdictions.

• When the global economic crisis hit, the government laid out a strategy to lessen the impact on Ontario families and businesses, through short-term investments to stimulate the economy.

• Deficits result in substantial borrowing requirements.

• The government has a realistic and responsible plan to return to a balanced budget.
Economic growth alone will not restore balance

Index of Real GDP per capita (2008Q2=100)
Index of Taxation Revenue (2007-08 = 100)

Tax revenues are not expected to return to their 2007-08 level until 2011-12, while program expense continues to grow even after stimulus winds down.

Interest expense is crowding out programs

- Each additional $1 billion in debt adds approximately $50 million in annual interest on debt expense.
- Interest on debt is projected to increase by $3.6 billion between 2009-10 and 2012-13, an increase of more than 40 per cent.

Source: 2010 Ontario Budget
The Province has a realistic and responsible plan.

The government’s plan will not cut too much, too soon, nor spend as if there is no deficit.

Source: 2010 Ontario Budget
Confronting the challenge is necessary

- As economies return to growth, governments must return to balanced budgets.

- Ontario is taking action to eliminate the deficit so that it can ensure the sustainability of its public services.

- Tax rates need to be competitive to promote investment and job creation by the business sector.

- That's why the government must manage spending, in spite of escalating and competing demands for Ontario’s scarce resources.
Growth in program expense will be lower than before

To balance the budget by 2017-18, the government’s plan requires holding the annual growth in program expense to an average of 1.9 per cent beyond 2012-13 – much lower than in the past.

Demand for public services will continue to grow

• An aging population will put increased pressure on health care
  – Ontario’s population aged 65 and over will more than double by 2030

• Education spending will reflect the increasing number of elementary and secondary school-aged children over the next 20 years.

• Demand for postsecondary education will continue to grow as the 18-24 year old cohort grows over the long term and participation rates continue to increase

“Action is required to manage the growth of spending and to preserve key public services in the coming years and for future generations.”
(2010 Ontario Budget, page xx)
Future funding remains tight

Even after compensation structures have been frozen for two years, there is little room for compensation increases:

1.9 % per year  Program expense growth

subtract: 1.2 % per year  Population growth [ ~ a proxy for growth in demand for services]

0.7 % per year  Maximum available for growth in costs or utilization, before any efficiencies in delivering services
Most jurisdictions have turned to compensation restraint

- Ontario is not alone in facing the current fiscal crisis – other jurisdictions are facing similar challenges

- Jurisdictions that have announced changes to public sector compensation that either freeze wages or allow for only marginal increases:
  - Government of Canada
  - British Columbia
  - Alberta
  - Quebec
  - New Brunswick
  - Nova Scotia
  - California
  - New York
  - Greece
  - United Kingdom
Moving Forward

• The government is committed to maintaining the gains made in improving public services, while addressing the fiscal challenges faced by Ontario

• Every additional dollar that goes to interest payments is one less dollar for priority areas such as education or health care.

• Ontario’s plan to balance is built on reasonable assumptions about the pace and strength of Ontario’s rebound from recession

• The fiscal plan provides no funding for incremental compensation increases for future collective agreements