



# Public Sector Compensation in Ontario

July 20, 2010



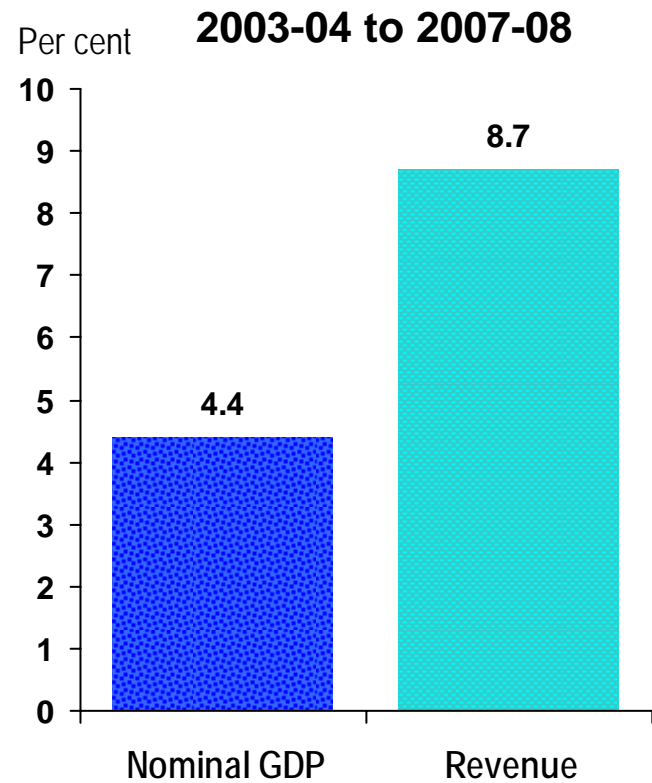
# Overview

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- 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

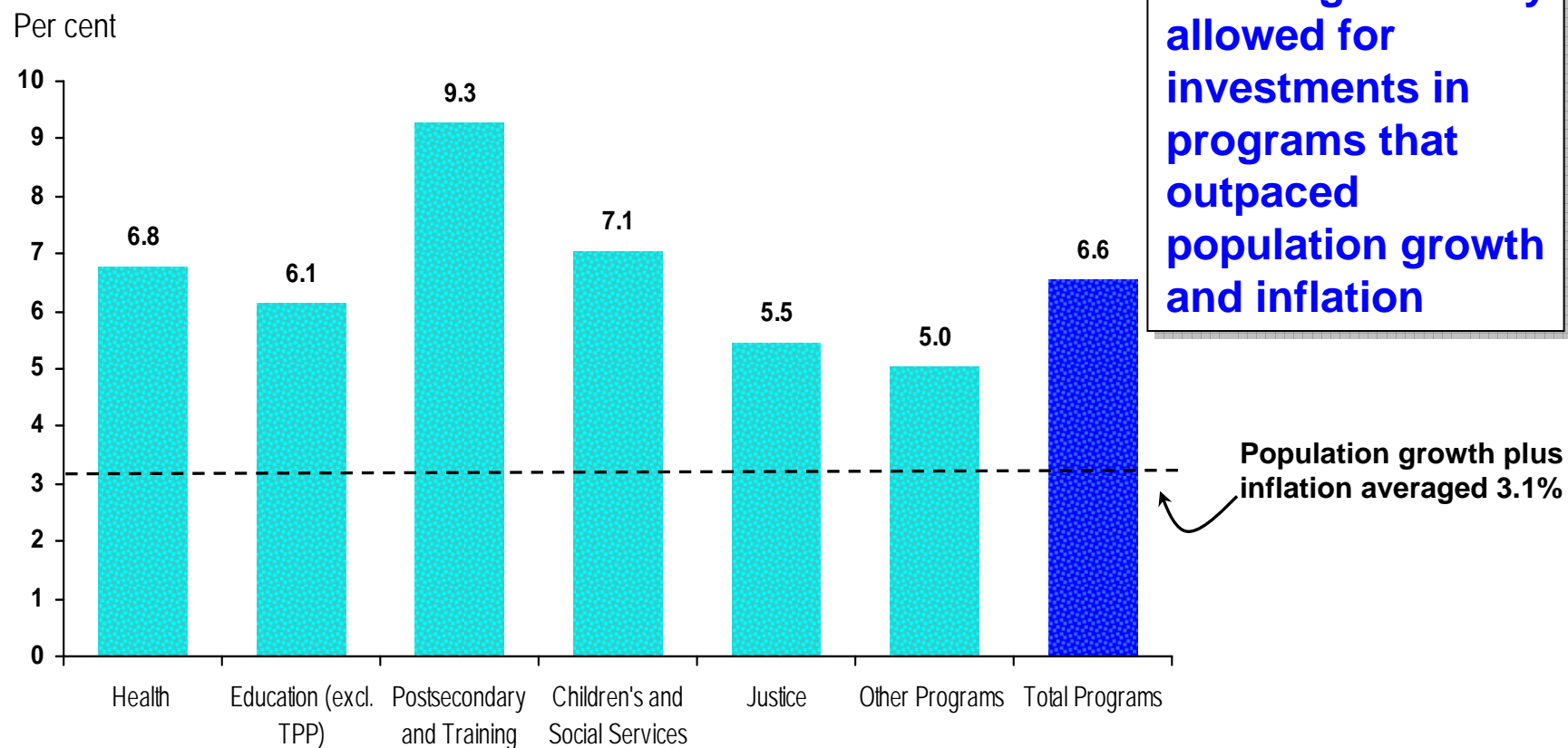
## Average Annual Growth Rates



*Source:* Statistics Canada and Public Accounts of Ontario.

# Growth enabled investments in programs

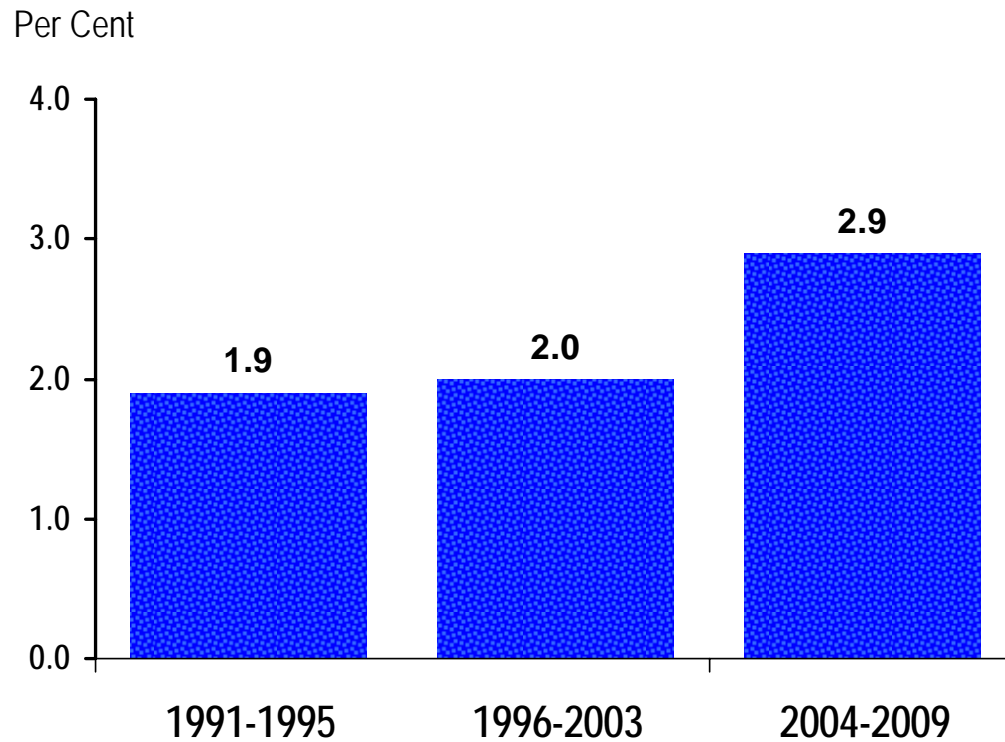
**Average Annual Growth Rates  
by Program Sector 2003-04 to 2008-09**



Source: Public Accounts of Ontario, Ontario Economic Outlook and Fiscal Review (2007, 2008, 2009)

# Growth also allowed for larger settlements

## Public Sector Settlements Average Annual Growth



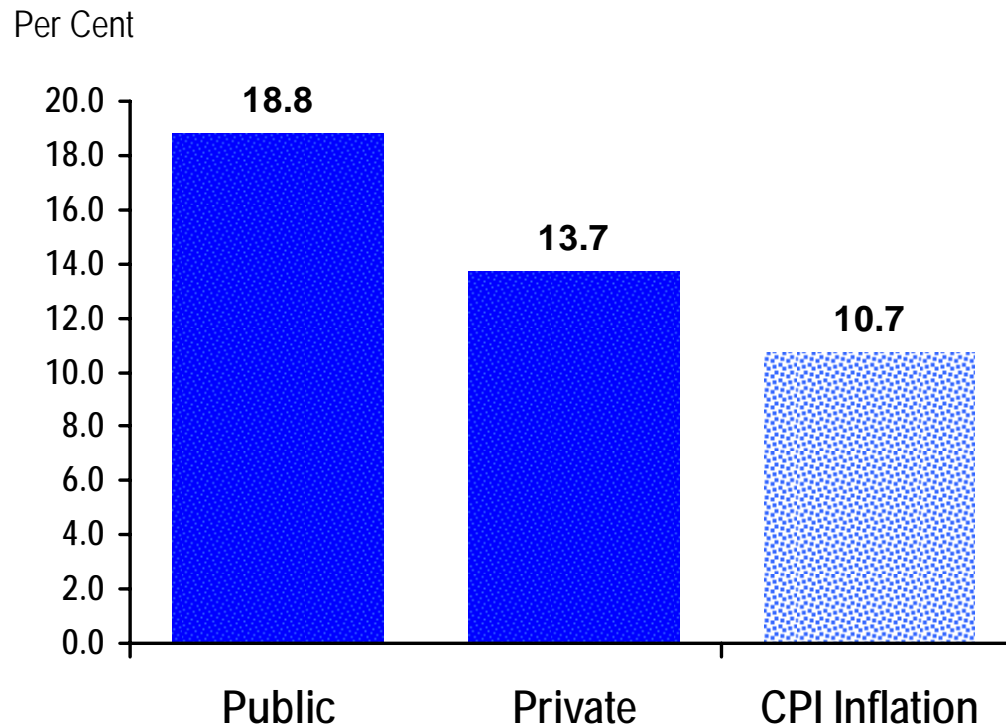
**Public sector settlements in recent years were larger than in the preceding periods**

*Source:* Human Resources and Skills Development Canada.

# 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.

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**The economic environment has  
changed ...**

# The economic environment has changed

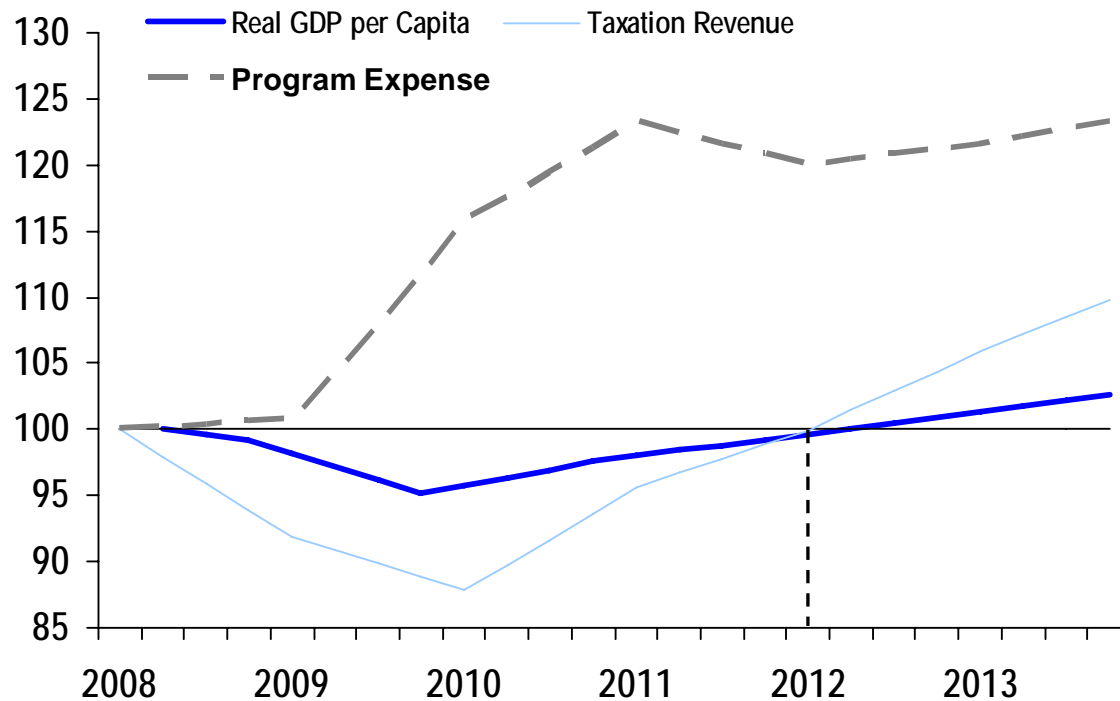
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- The scope and scale of the global economic crisis that began in the fall of 2008 were both dramatic and unanticipated by all jurisdictions.
- When the global economic crisis hit, the government laid out a strategy to lessen the impact on Ontario 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)

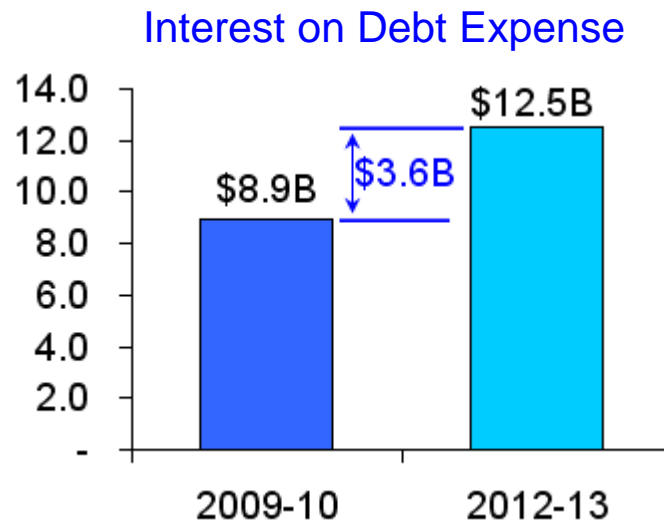


**Tax revenues are not expected to return to their 2007-08 level until 2011-12, while program expense continues to grow even after stimulus winds down.**

Source: 2010 Ontario Budget and current Ministry of Finance Survey of Economic Forecasts.

# Interest expense is crowding out programs

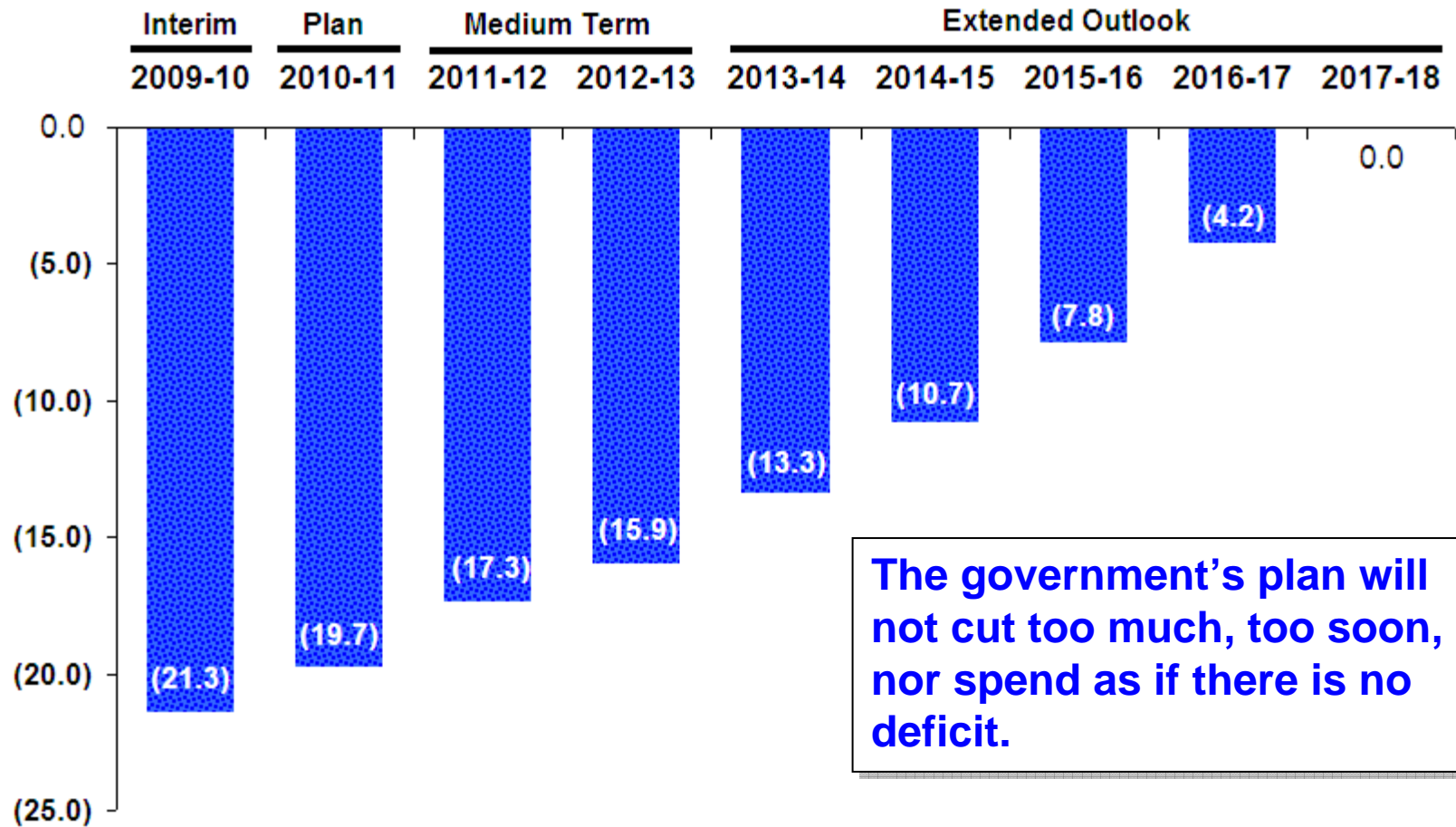
- Each additional \$1 billion in debt adds approximately \$50 million in annual interest on debt expense
- Interest on debt is projected to increase by \$3.6 billion between 2009-10 and 2012-13 an increase of more than 40 per cent



Source: 2010 Ontario Budget

# The Province has a realistic and responsible plan

**Fiscal Balance**  
(\$ Billions)



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

Source: 2010 Ontario Budget

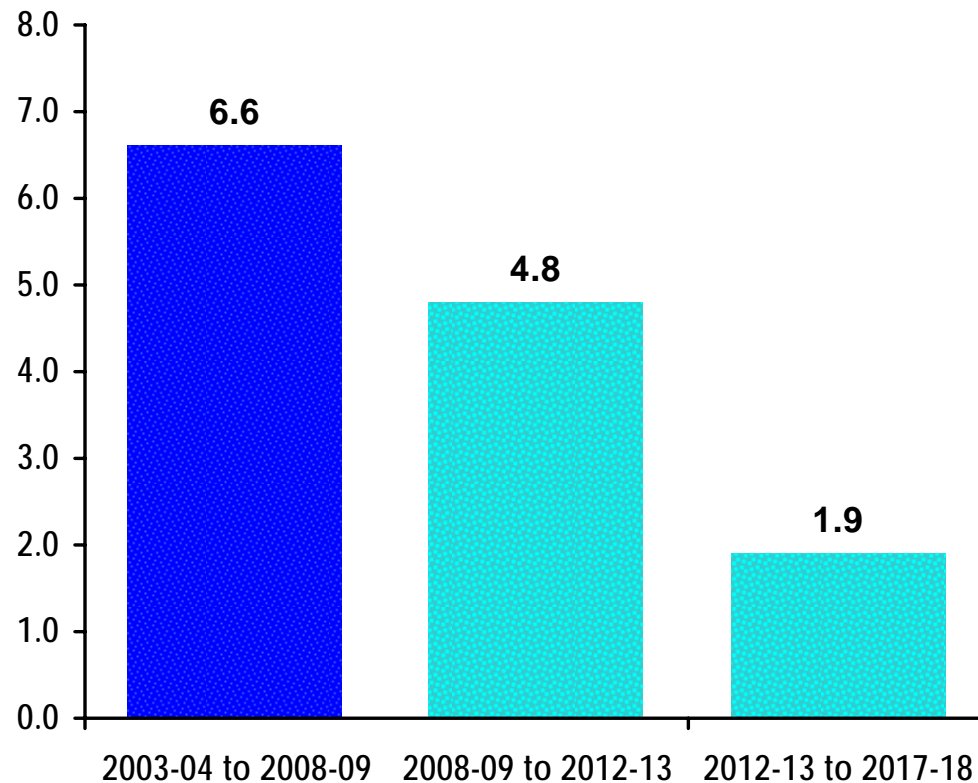
# Confronting the challenge is necessary

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- 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

## Growth in Program Expense Average Annual Growth



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.

Source: Public Accounts of Ontario, Ontario Economic Outlook and Fiscal Review (2007, 2008, 2009) and 2010 Ontario Budget.

# Demand for public services will continue to grow

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- 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

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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]

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**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

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- 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

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- 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