

THE 2005 ONTARIO BUDGET

PULLING A RABBIT OUT OF THE HAT



May 13, 2005

OVERVIEW

On May 11, 2005 the Ontario Minister of Finance, the Honourable Greg Sorbara tabled the Ontario Liberal Government's second Budget. This Budget comes at a critical time for the Ontario Liberals. The Government is mid-way through its mandate and should be sensitive to the criticism that it has been heavy on consultation and light on action. As well, the Government did not want to see a repeat of the flack caused by the introduction of a health premium in last year's Budget. With what was expected to be dire news on the fiscal front compounded by pressures coming from the health, education and municipal sectors and high expectations from the Rae report on the post-secondary education system, one would have expected that Finance Minister Sorbara might have had to pull a rabbit out of his hat to come out unscathed. Perhaps he did.

HIGHLIGHTS

- ◆ **A \$3 billion deficit rather than the projected \$6 billion deficit** expected for the 2004-05 fiscal year, due in large part to higher than anticipated corporate tax revenue (\$1.2 billion higher) and not having use the \$1 billion reserve fund.
- ◆ **A one-year delay (to 2008/09 instead of 2007/08), to achieve a balanced budget.** A balanced budget could be achieved one year earlier if the (\$1.5 billion) reserve is not required in 2007/08.
- ◆ After last years' furor over the health tax, the Government did not introduce any new tax measures.
- ◆ **New investments in post-secondary education** through the *Reaching Higher* plan:
 - \$683 million in 2005/06, rising to \$1.9 billion in 2009/10 (a cumulative investment of \$6.2 billion by 2009/10).
 - New funding will go towards: enhanced student financial assistance, an extension of the tuition freeze in 2005/06, increased enrolment in post-secondary institutions and apprenticeship programs, more faculty and research funding, a new Higher Education Quality Council to set and monitor performance targets.
- ◆ **\$30 billion in new infrastructure funding over the next five years** for building and maintaining roads, hospitals, schools, post-secondary institutions, municipal water systems and making transit investments.
 - The Government will fund capital assets over their service life, rather than funding them upfront.
 - The Government is looking to private sector sources of funding (i.e., Canadian pension plans) to invest in Ontario's infrastructure.
- ◆ **\$1.8 billion in new health care funding** to fund previous and ongoing commitments (e.g., the new agreement with the Ontario Medical Association). The new funding represents an increase of about 6% over last year (from \$31.1 to \$32.9 billion).
- ◆ **A continued commitment to early learning (Best Start) and education (Success for Students) funding** from last year's Budget and an infusion of new childcare transfer money from the Federal government (\$272 million in 2005/06, rising to \$451 million in 2007/08).

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ANALYSIS

The headlines in the morning-after media read as follows:

- ***Sorbara plays it safe*** (The Globe and Mail)
- ***Ontario Liberals' ice cream budget*** (The National Post)
- ***Students get \$6.2 billion boost*** (The Toronto Star)

All-in-all, the **media stood anywhere from neutral to favourable on the Government's Budget**. Pushing back the date to balance the budget by a year got only modest attention.

At the time Minister Sorbara began work on this Budget he could not have been too optimistic about the fiscal prospects. With the Provincial Auditor's scuttling of the anticipated one-time gain of \$3.9 billion relating to the electricity purchase agreement and having to face ongoing pressures and huge expectations in various sectors, the Finance Minister must have wondered what he was going to do.

However, with **greater than anticipated corporate tax revenues** and the serendipitous circumstances resulting in not having to draw down on the \$1 billion reserve fund, the Finance Minister found room to deliver on some key Government priorities without having to take any drastic fiscal measures to do so.

The **huge investment in post-secondary, training and apprenticeship funding** – the biggest in decades – allows the Government to fulfil the bulk of Bob Rae's recommendations. It's hard for the Opposition parties to take much serious issue with what the Government is proposing in this area.

For his part, John Tory, **the Progressive Conservative** leader, has said that the Government has squandered a golden opportunity to pay down the deficit and cut taxes with the extra revenue. Notwithstanding that Mr. Tory does not carry the fiscal baggage of the previous Tory Government, the Opposition Tory's don't have a great deal of credibility on this issue.

While the Government has broken its promise to balance the budget by 2007/08 (extending it to 2008/09) and critics may contend that this is another broken promise, it is unlikely that the public will be too critical. And, in fact the Government has demonstrated a desire to hold the line on certain spending (e.g., flat-line budget of 15 ministries) and even curtail health spending to less than the recent trend of annual eight percent increases. It should be noted however, that the showdown with the Ontario Hospital Association has already started with threats of closures and staff layoffs. Like other governments before it, the Liberal's resolve to hold the line on health-care spending will be put to the test.

On the **NDP** side, Howard Hampton has accused the Government of "privatization by stealth" with its infrastructure proposal. With the lack of any real details in the Budget it is hard to see where he is getting this from other than his rhetoric bible. In fact, ideology aside, if the post-secondary announcement represents Liberal Government action and decisiveness, arguably the infrastructure file suffers from over-consultation.

Delays notwithstanding, **the Ontario budget has sent a clear indication that the government is opening the door to so-called public-private-partnership (P3s)** investments to fund much-needed infrastructure improvements in the province. The Finance Minister was quick to eliminate any possibility of private hospitals or water service – two key problem areas for the last government. Leading up to the Budget, the Finance Minister met with some leading would-be investors, such the Ontario Teachers' Pension Plan and OMERS, who both make substantial infrastructure investments outside Canada. Both indicated this is a positive sign, but are waiting for details. By including this so prominently in the Budget, the Finance Minister has clearly indicated that he is willing put the public policy framework in place to make private investing in infrastructure more attractive.

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While pension funds have welcomed the invitation by the Government to invest in public infrastructure, Ontarians will have to wait several weeks until the Minister of Public Infrastructure Renewal, David Caplan, releases the details of province's five-year infrastructure plan. We anticipate that the plan will, in effect, establish the pipeline of projects set to come on stream over the next five years. **Likely targets will be energy, highway construction and bricks-and-mortar-only construction of institutions such as schools and universities.**

Big losers in this Budget are the agricultural sector and municipalities, which saw either little or no new spending, or even departmental cutbacks. In post-budget interviews, the Finance Minister has acknowledged this, counting on Ontarians to understand that these are necessary trade-offs in budget-making. Most commentators have agreed with this view – variously describing it as “modest”, “cautious” and “realistic”.

Minister Sorbara must feel like he has pulled a rabbit from his hat.

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Barry Campbell served as a Member of the Parliament in the Liberal Government from 1993 to 1997. He served as Parliamentary Secretary to the former Minister of Finance, the Rt. Hon. Paul Martin.

Dick O'Hagan, a consultant with long experience in the public and private sectors, was an advisor in the Prime Minister's Office serving Prime Ministers Trudeau and Pearson.

Paul Brown served in the Conservative Government of Canada from 1984 to 1988 as Policy Advisor to the Industry Minister, Executive Assistant to the President of the Treasury Board, and Chief of Staff to the Minister of Labour.

Mitchell Toker, a Senior Consultant with an extensive background in public policy development and law, was a senior executive in the Ontario Public Service, most recently in The Cabinet Office and Ministry of Health and Long-Term Care.

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Patrick Gossage is one of Canada's most highly respected communications practitioners. He served as Prime Minister Trudeau's press secretary from 1976 to 1982 and Minister of Information at the Canadian Embassy in Washington.

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