2012

COMMISSION ON THE REFORM OF ONTARIO'S PUBLIC SERVICES

PUBLIC SERVICES FOR ONTARIANS: **A PATH TO SUSTAINABILITY AND EXCELLENCE**

EXECUTIVE SUMMARY

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Message from the Chair

Dear Premier McGuinty and Minister Duncan:

Thank you for inviting me to chair the Commission on the Reform of Ontario's Public Services. This can be an important turning point in the province's history and I welcome this opportunity to present the ideas contained in this report.

I especially appreciate the extraordinarily wide mandate you gave the Commission, which makes it much more than a simple exercise in cost-cutting. It has allowed us to delve into almost every corner of the government's activities and to think long and hard about how government can work better for the benefit of everyone in the province. It recognizes that the people of Ontario deserve the finest public services at a cost that is affordable.

Let me first thank the other three commissioners. Dominic Giroux, Susan Pigott and Carol Stephenson brought to this work long and varied experience and keen minds that added enormously to the quality of our thinking. The Commission's work has benefited from the views and work of many people, both inside and outside the government, who took time to share their views with us. We had excellent support from the Secretariat under the leadership of Scott Thompson. Members of the Ministry of Finance were particularly helpful, but we also benefited from the wise counsel of many people in the Ontario government, who gave us generous access to their ideas and data.

With such a broad mandate to be carried out over a limited period, we were not able to conduct comprehensive consultations. But every group we asked to meet us not only accepted our invitation, but offered great ideas for reforms in their domains. We thank them all.

Ontario faces two serious fiscal challenges. The first is to get out of the current large deficit. This will take many years, but the task does not end there. It goes almost without saying that every effort must be made to bolster future economic growth rates, and much has been done in that regard, such as reinvesting in education and reforming the tax system. But with a looming slowdown in the expansion of the labour force that is almost upon us and with the province's weak productivity growth of late, Ontario cannot count on a resumption of its historical strong growth rates. This means that the sharp degree of fiscal restraint needed over the next few years to eliminate the deficit may see a point of some reprieve, but not much. Spending simply cannot return to recent trends.

This context lifts the task ahead well beyond that of merely cutting or restraining costs. We must be students of history and history shows that simple cost-cutting by governments too often generates fiscal improvements that peter out after a few years as pressures build. In the end, spending surges again and the result is more of the same, but at a higher cost.

The only way to get out of deficits and stay out, in a period of limited economic growth, is to reform government programs and the manner in which they are delivered.

This should be viewed as an opportunity, not a problem. Ontario can and should have the best public services in the world; this is an opportunity to reach for that goal. To get there, we should study promising practices around the world by others who have faced similar issues.

But to be the best, we must go beyond that. Ontario should become the first government to relentlessly pursue quality and efficiency in public services. It is often argued that governments cannot do this because they lack the discipline imposed by a bottom-line profit imperative and shareholders to hold them to it. But the Ontario government has over 13 million shareholders who do not want their government to run deficits and believe they already pay enough taxes. That should be incentive enough.

What we need is to drive those incentives into every corner of government and the broader public sector. Programs need clear objectives. Metrics must be created to track whether programs meet those objectives. If not, the programs must be changed.

The government must constantly benchmark its effectiveness and efficiency against the private sector and against the best public services in the world. It must be prepared to shed old priorities (and offend their advocates) and set new priorities (which often have no advocates) as they arise.

It must make tough decisions on which services are best delivered by the public service and which can be better done by others, in the private sector.

The calling of public service must be restored to a position of honour and respect, so it can draw the province’s best and brightest. Their performance should be adequately compensated and rewarded — not for effort, but for results. There is huge value in a public service that can think deeply and wisely about public policy and deliver effective programs in an efficient manner.

Ontario must be the leader in shifting public services from a reactive to a proactive mode. Whether it is health care, social services, education, training, economic development or almost anything else, governments typically patch up things once something has gone wrong. Ontario must shift to foreseeing problems and cutting them off before they develop. This in turn requires a government with a serious research capacity, both internally and through what it can draw from the outside.

The Commission has made hundreds of recommendations for improving the effectiveness and efficiency with which public services can be delivered.

None of these choices will be easy and many of our proposals will draw vigorous criticism. But it must be kept in mind that our recommendations can deliver the needed degree of spending restraint to balance the budget by 2017–18 *only if all are implemented*. This imposes a discipline of its own. We expect that many of our recommendations will be rejected. We accept that, but each rejected recommendation must be replaced not by a vacuum, but by a better idea — one that delivers a similar fiscal benefit.

Our recommendations are daunting in depth and scope. Indeed, they may seem overwhelming, even to the point that the government may fear that they exceed its political and bureaucratic capacity to carry them out. But there is benefit to moving quickly on many fronts at once. Targeting certain programs or sectors for reform and restraint can generate a sense of unfairness. A wide-ranging reform effort will reinforce the notion that we are all in this together, that all Ontarians can support the reforms because they will benefit in the end from these changes. And none of this will work if there is no public support.

Although we have not made a formal recommendation on this point, I urge you to consider holding broader consultations on the economic and fiscal challenges facing this province. Ontarians have not yet grasped the extent to which the slow decline of this province's manufacturing base has undermined both its historic economic advantage relative to the rest of Canada and the provincial government's long-term ability to finance the public services they treasure. You should go beyond a legislative body to review our report and consult as well with the wider public through town hall gatherings and meetings of stakeholders. An informed public is essential to the success of the reforms.

Action must begin very soon. The deficit is expected to be $16 billion this year. By 2017–18, it will almost double — and the debt will climb to more than half of gross domestic product — if the status quo is left in place. Decisive, firm and early action is required to get off this slippery, and ultimately destructive, slope. At a time when the news is full of stories of countries around the world that have failed the fiscal test and slid into the ditch, to the enormous detriment of their citizens, Ontario must be different. It must be the best.

Don Drummond
Chair
Commission on the Reform of Ontario's Public Services

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A special thanks to the Secretariat to the Commission on the Reform of Ontario's Public Services:

Barb Brownlee, Stephen Donnelly, Craig Fowler, Caspar Hall, Art Komarov, Jenna LeBlanc, Kaleb Ruch and Jonathan Tekle.

Commission Member Biographies

Don Drummond, Chair

Don Drummond is currently Matthews Fellow in Global Public Policy, Queen's University. Mr. Drummond was born and raised in Victoria, British Columbia, where he graduated from the University of Victoria. He subsequently received his M.A. in Economics from Queen's University. He also holds an honorary doctorate from Queen's University.

Mr. Drummond joined the federal Department of Finance upon completing his studies at Queen's. During almost 23 years at Finance, Mr. Drummond held a series of progressively more senior positions in the areas of economic analysis and forecasting, fiscal policy and tax policy. His last three positions were, respectively, Assistant Deputy Minister of Fiscal Policy and Economic Analysis, Assistant Deputy Minister of Tax Policy and Legislation and, most recently, Associate Deputy Minister. In this latter position Mr. Drummond was responsible for economic analysis, fiscal policy, tax policy, social policy and federal-provincial relations. In particular, Mr. Drummond co-ordinated the planning of the annual federal budgets.

From 2000 to 2010, Mr. Drummond served as Senior Vice President and Chief Economist, TD Bank. Mr. Drummond led TD Economics' work in analyzing and forecasting economic performance in Canada and abroad. TD Economics also analyzes the key policies that influence economic performance, including monetary and fiscal policies.

Dominic Giroux, Commission member

Dominic Giroux is the President and Vice-Chancellor of Laurentian University.

Prior to his appointment at Laurentian, Mr. Giroux was Assistant Deputy Minister with the Ontario Ministry of Education and the Ministry of Training, Colleges and Universities, after having served as CFO of two French-language school boards in southern and eastern Ontario.

Mr. Giroux started in education as a school board trustee at age 19 and was elected board chair at 21 in Ottawa. In 2011, he received one of Canada's "Top 40 Under 40" Awards.

Mr. Giroux serves as chair of the board of directors of the Northern Ontario School of Medicine, national co-chair of the Consortium national de formation en santé (CNFS), co-chair of the Ontario Council on Articulation and Transfer (ONCAT), and board member of the Centre for Excellence in Mining Innovation (CEMI), the Greater Sudbury Development Corporation (GSDC) and the Greater Sudbury Food Bank.
He also served as co-special advisor on the implementation of the Northern Policy Institute and was appointed to the province’s Ring of Fire Advisory Council.

A member of the Ontario College of Teachers, Mr. Giroux holds bachelor's degrees in social sciences and education from the University of Ottawa, and an MBA from the École des Hautes Études Commerciales (HEC) in Montreal.

Susan Pigott, Commission member

Susan Pigott is the Vice President, Communications and Community Engagement at the Centre for Addiction and Mental Health (CAMH) in Toronto.

She trained as a nurse at the Wellesley Hospital School of Nursing in Toronto and then worked as a registered nurse for 10 years in Toronto and in Australia and Papua New Guinea.

In 1978, Ms. Pigott earned a master's degree in social work at the University of Toronto. Since then, she has worked in the non-profit human services field for over 25 years. Prior to CAMH, she was Chief Executive Officer of St. Christopher House, a community-based, multi-service agency that operates in the west end of Toronto. Prior to that, she spent seven years at the United Way of Greater Toronto, first as Allocations Director and then as Vice President of Fundraising.
In 2006–07, she took a leave of absence from St. Christopher House to serve as the Executive Lead for Citizen Engagement, supporting the Ontario Citizens' Assembly on Electoral Reform.

An active volunteer, Ms. Pigott has served on several boards including the Community Social Planning Council, the Hospital for Sick Children and Soulpepper Theatre Company. Currently, she is a board member of the Greater Toronto CivicAction Alliance, the Change Foundation and Workman Arts.

Carol Stephenson, O.C., Commission member

Carol Stephenson is the Dean of the Richard Ivey School of Business at The University of Western Ontario, as well as the Lawrence G. Tapp Chair in Leadership.

Since joining Ivey in 2003, Carol Stephenson has led the drive to reshape the teaching of business education. As a widely respected CEO, she brings more than 30 years of progressive experience in marketing, operations, strategic planning, technology development, and financial management to Canada's premier business school.

Ms. Stephenson currently serves on several boards for top Canadian companies and on important government committees. She is a Director of Intact Financial Services Corporation (formerly ING Canada) and Manitoba Telecom Services Inc. Carol served as a board of directors member for GM Canada, until she was appointed by the governments of Canada and Ontario to serve as a board member for General Motors Company. Ms. Stephenson is Chair of the Ontario Research Fund Advisory Board, and Chair of the federal government's Advisory Committee on Senior Level Retention and Compensation. In November 2006, she was appointed by the federal government to serve on the board of directors of the Vancouver Olympic Games Organizing Committee (VANOC). She has earned significant recognition for her community work and industry involvement. Notably, in December 2009, Ms. Stephenson was appointed Officer of the Order of Canada.

Photo Credit: Jovan Matic

Executive Summary

Ontarians want excellent public services from their government. The Commission on the Reform of Ontario's Public Services understands and supports this desire. We see no reason why Ontario cannot have the best public services in the world — with the proviso that they must come at a cost Ontarians can afford. With such a goal, we face three overarching tasks. First, we must understand Ontario's economic challenges and address them directly. Second, we must firmly establish a balanced fiscal position that can be sustained over the long term. And third, we must sharpen the efficiency of literally everything the government does so Ontarians get the greatest value for money from the taxes they pay. This report addresses these issues and offers a road map to a day when Ontarians can count on public services that are both excellent and affordable — the public services Ontarians want and deserve.

The Need for Strong Fiscal Action

Ontario faces more severe economic and fiscal challenges than most Ontarians realize. We can no longer assume a resumption of Ontario's traditional strong economic growth and the continued prosperity on which the province has built its public services. Nor can we count on steady, dependable revenue growth to finance government programs. Unless policy-makers act swiftly and boldly to prevent such an outcome, Ontario faces a series of deficits that would undermine the province's economic and social future. Much of this task can be accomplished through reforms to the delivery of public services that not only contribute to deficit elimination, but are also desirable in their own right. Affordability and excellence are not incompatible; they can be reconciled by greater efficiency, which serves both the fiscal imperative and Ontarians' desire for better-run programs. Balancing the budget, however, will also require tough decisions that will entail reduced benefits for some. Given that many of these benefit programs are not sustainable in their current form, the government will need to decide how best to target benefits to those who need them most. The treatment may be difficult, but it is worth the effort.

Ontario's $14 billion deficit in 2010–11 was equivalent to 2.3 per cent of gross domestic product (GDP), the largest deficit relative to GDP of any province. Net debt came to $214.5 billion, 35 per cent of GDP. The *2011 Ontario Budget* set 2017–18 as the target year to balance the books — at least three years behind any other province. The government asked this Commission to help meet and, if possible, accelerate the deficit-elimination plan.

First, we assessed the **2011 Budget Scenario** for the next seven years; while the government maintained that it was committed to balancing the budget by 2017–18, we concluded, as did the Auditor General, that the *2011 Budget* measures alone would not likely lead to balance. If there are now plans under development within government to secure all of the fiscal restraint, they have not been provided to the Commission.

Next, we developed a **Status Quo Scenario**, our own view of how Ontario's finances would unfold if no changes were made to government policies, programs or practices. We used assumptions for both economic and revenue growth that were more cautious than those in the *2011 Budget*, largely because the economic outlook had deteriorated since March 2011. We also assumed that the growth of programs would continue to be driven by inflation, population growth, aging, school enrolments and so on.

The resulting projection indicated that the deficit would more than double to $30.2 billion in 2017–18 and net public debt would reach $411.4 billion, equivalent to just under 51 per cent of the province's GDP. To avoid that outcome, we devised a **Preferred Scenario** for the budget path that would balance the budget in 2017–18. It incorporates a revenue projection that is substantially lower than that of the *2011 Budget* and a much reduced track for program spending.

Meeting the target will be difficult, but we believe our recommendations will accomplish the job. Although our mandate expressly forbids us from proposing new or increased taxes, there are ways the government can raise some additional revenues. Still, most of the burden of eliminating the $30.2 billion shortfall in 2017–18 must fall on spending. To balance the budget, the province must target a spending level in 2017–18 that is 17 per cent lower than the sum found in the Status Quo Scenario — a wrenching reduction from the path that spending is now on. It is, however, necessary if Ontario is to escape its recent history of rising public debt that forces the government to spend more than it should in interest payments — money that could otherwise be used to finance programs. Our Preferred Scenario would hold down the growth of net public debt, leaving it at 37 per cent of GDP in 2017–18.

Slowing, and eventually halting, further growth of the debt burden is critical. In the past two decades, Ontario's fiscal record has been one of large deficits that were only partially offset by sporadic episodes of small surpluses. Since the late 1980s, Ontario's debt ratio has more than doubled to 35 per cent from 14 per cent as recessions quickly created more debt, but good economic times only reduced it slowly. Debt is costly, since interest must be paid on the province's outstanding bonds and other obligations. Unusually low interest rates in recent years have allowed Ontario to borrow cheaply, but as interest rates rise to more normal levels, so will the cost of servicing the growing debt, and that will divert dollars away from public programs.

Until recently, Ontario's debt record was similar to that of other Canadian provinces. In the past decade, however, a commodities boom has allowed provinces such as Alberta, British Columbia, Newfoundland and Labrador, and Saskatchewan to reduce their debt burden, leaving Ontario in the company of the three Maritime provinces, with their roughly 35 per cent debt ratios. Canada's highest provincial debt ratio, at about 50 per cent, belongs to Quebec; that is where Ontario is headed in our Status Quo Scenario.

By current international standards, Ontario's debt is still relatively small. We are a very long way from the dreadful fiscal condition of countries that have dominated the news in the past two years. So, however, were many of the headline countries at one time — in some cases, surprisingly recently. Still, among bond investors, Ontario is seen as a well-governed province in a well-governed country. We do not mean to be alarmist, only to point out that government debt can rise quickly if not headed off early. Should the global economy turn nasty once again, any deterioration in investor confidence could be remarkably swift. The recent decision by Moody's Investors Service to revise its outlook on Ontario's bonds from stable to negative is a danger sign. With the global recession hitting Ontario particularly hard, Ontario's recent deficit record is poor; relative to GDP, it ran the biggest provincial deficits in the country for three consecutive years beginning in 2008–09; the current 2011–12 fiscal year is likely to add a fourth.

Our message will strike many as profoundly gloomy. It is one that Ontarians have not heard, certainly not in the recent election campaign, but one this Commission believes it must deliver. If Ontarians and their government are going to come to grips with the fiscal challenges that lie ahead, they must understand the depth of the problem and its causes. Ontario must act soon to put its finances on a sustainable path and must be prepared for tough action — not just for a few years, but at least until 2018. We believe Ontarians can make — and implement — the kind of thoughtful decisions needed to resolve the province's fiscal dilemma while protecting, to the greatest degree possible, the public programs on which Ontarians rely, many of which are a source of justifiable pride.

The rewards of such action will be considerable and tangible. High-debt governments are always vulnerable to the whims and demands of the financial markets from which they have borrowed; governments in this position can be forced to take draconian measures to keep their lenders happy (Greece and Italy are recent vivid examples). Low-debt governments have much more flexibility to set their own priorities — ones that meet the needs of their citizens and the good of their jurisdictions as a whole.

How did we get to this point? For most of the past decade, Ontario's economic growth has lagged that of the rest of Canada, as changing economic conditions hit Ontario harder than other provinces. A strong dollar made Ontario's exports more expensive for foreigners to buy while making imports cheaper; as a result, foreign trade, once a net contributor to GDP growth, is now a net drag. In the recent recession, Ontario lost 5.0 per cent of its GDP from peak to trough, while the rest of the country lost only 3.7 per cent. The human cost of this lacklustre performance is apparent in jobs and incomes: Ontario's unemployment rate has been above the national rate for over five years now; average personal income in Ontario, more than 20 per cent higher than the average in the rest of Canada in the second half of the 1980s, was 0.5 per cent lower than this average in the third quarter of 2011.

Ontario's future growth will almost certainly be slower than it was in the past. Not only will the global recovery be slower than normal, but Ontario also faces further structural changes. As in most of the developed world, manufacturing has been dwindling as a share of the province's output and employment base. This trend will continue. Moreover, the growth in Ontario's working-age population and labour force will come mostly from immigration, but the incomes of recent immigrants have been well below those of workers who were born in Canada or arrived earlier.

In short, we cannot count on robust economic growth to resolve our fiscal challenge. Out to 2014, we accept the projection in the government's *2011 Ontario Economic Outlook and Fiscal Review* that real GDP will grow by an average of 2.2 per cent per year. Beyond that, we take a cautious approach, based on our view that labour-force growth will slow and productivity growth will remain modest. From 2015 through 2018, we expect average real GDP growth of only two per cent per year. Growth in nominal GDP, which includes the impact of inflation, is even more critical for fiscal planning because it constitutes the tax base — the economic activity on which the provincial government levies its taxes on income, sales and corporate profits. We assume nominal GDP growth of 4.2 per cent to 2014 and 3.9 per cent from 2015 through 2018.

Our growth assumption directly affects our projections of the government's revenue growth. We continue to be more cautious on the revenue projections to 2013–14 than those contained in the *2011 Ontario Economic Outlook and Fiscal Review*. We see some room for additional revenue growth without raising taxes (these would involve contraband tobacco, the underground economy, collections issues, tax expenditures and additional revenues from Crown agencies), but our projections for 2017–18 point to total revenues of $134.7 billion, $7.5 billion less than the Budget Scenario's $142.2 billion. While we can hope for better, we cannot make firm budget plans on the basis of hope. Our caution also leads us to build in a larger reserve in case revenues fall short of the forecast.

The *2011 Budget* set out a track to 2017–18 for spending on programs (everything, that is, except interest on the debt) that involved growth of 1.0 per cent annually from 2010–11 to 2013–14 and 1.7 per cent per year from then until 2017–18. But if we assume that government programs continue as they are now delivered, then spending is actually on course to grow much faster — 3.5 per cent per year on average over the seven-year period. This is about half the pace of the past decade, so significant action has been taken. Our Status Quo Scenario for program spending incorporates increases that are likely to occur if current programs retain their present form, if no new programs are introduced and if nothing further is done to restrain spending. It is based on drivers of spending growth such as inflation, population growth, aging, new drugs, enrolment growth and welfare caseloads.

Yet spending is neither out of control nor wildly excessive. Ontario runs one of the lowest-cost provincial governments in Canada relative to its GDP and has done so for decades. And we must recognize that some important steps have been taken in the past few years to help manage costs, improve our prospects for future economic growth and enhance services to the public.

To prevent the $30.2 billion deficit that we project in our Status Quo Scenario for 2017–18, the government can raise taxes, cut the rate of spending growth, or do some of both. While our mandate precludes us from recommending new or increased taxes, we believe that the revenue measures mentioned earlier could raise almost $2 billion by then; the government should proceed with these measures. Steadily reducing the deficit to zero in 2017–18 would save $4.3 billion in interest costs. To balance the budget, we need to shave about $23.9 billion off our projection for program spending in that year.

Such an outcome allows for an increase in total spending on programs of only 5.6 per cent over seven years, or 0.8 per cent per year. If we factor in both population growth and inflation, we find that real program spending for every man, woman and child in Ontario must fall by 16.2 per cent, an average annual decline of 2.5 per cent from 2010–11 through 2017–18, a drop that is almost certainly unprecedented.

TABLE 1. Three Views of the Outlook for 2017–18

	2010–11	2017–18	2010–11 to 2017–18		2010–11	2017–18	2010–11 to 2017–18		2010–11	2017–18	2010–11 to 2017–18	
	Billions ($)	Billions ($)	Per Cent Change	CAGR* (Per Cent)	Per Capita in current dollars	Per Capita in current dollars	Per Cent Change	CAGR* (Per Cent)	Per Capita in 2010 dollars ***	Per Capita in 2010 dollars ***	Per Cent Change	CAGR** (Per Cent)
Budget Scenario*												
Revenue	**106.2**	**142.2**	**33.9**	**4.3**	**8,027**	**9,898**	**23.3**	**3.0**	**8,027**	**8,527**	**6.2**	**0.9**
Expense												
Program Spending	113.3	124.9	10.2	1.4	8,569	8,697	1.5	0.2	8,569	7,492	(12.6)	(1.9)
Interest on Debt	9.5	16.3	70.7	7.9	720	1,132	57.2	6.7	720	975	35.4	4.4
Total Expense	**122.9**	**141.2**	**14.9**	**2.0**	**9,289**	**9,829**	**5.8**	**0.8**	**9,289**	**8,467**	**(8.8)**	**(1.3)**
Contingency Reserve	–	1.0	–	–	–	70	–	–	–	60	–	–
Surplus/ (Deficit)	**(16.7)**	**–**	**–**	**–**	**(1,261)**	**–**	**–**	**–**	**(1,261)**	**–**	**–**	**–**
Net Debt	217.3	322.5	48.4	5.8	16,431	22,450	36.6	4.6	16,431	19,340	17.7	2.4
Net Debt/ GDP	35.5%	39.7%	–	–	–	–	–	–	–	–	–	–
Status Quo*												
Revenue	**106.7**	**132.7**	**24.5**	**3.2**	**8,063**	**9,241**	**14.6**	**2.0**	**8,063**	**7,960**	**(1.3)**	**(0.2)**
Expense												
Program Spending	111.2	141.4	27.2	3.5	8,406	9,842	17.1	2.3	8,406	8,479	0.9	0.1
Interest on Debt	9.5	19.7	107.5	11.0	717	1,369	91.1	9.7	717	1,180	64.6	7.4
Total Expense	**120.7**	**161.1**	**33.5**	**4.2**	**9,122**	**11,212**	**22.9%**	**3.0%**	**9,122**	**9,658**	**5.9**	**0.8**
Contingency Reserve	–	1.9	–	–	–	132	–	–	–	114	–	–
Surplus/ (Deficit)	**(14.0)**	**(30.2)**	**–**	**–**	**(1,059)**	**(2,103)**	**–**	**–**	**(1,059)**	**(1,812)**	**–**	**–**
Net Debt	214.5	411.4	91.8	9.8	16,216	28,641	76.6	8.5	16,216	24,672	52.1	6.2
Net Debt/ GDP	35.0%	50.7%	–	–	–	–	–	–	–	–	–	–
Preferred Scenario*												
Revenue	**106.7**	**134.7**	**26.3**	**3.4**	**8,063**	**9,377**	**16.3**	**2.2**	**8,063**	**8,077**	**0.2**	**0.0**
Expense												
Program Spending	111.2	117.5	5.6	0.8	8,406	8,176	(2.7)	(0.4)	8,406	7,043	(16.2)	(2.5)
Interest on Debt	9.5	15.3	61.8	7.1	717	1,068	49.0	5.9	717	920	28.4	3.6
Total Expense	**120.7**	**132.8**	**10.0**	**1.4**	**9,122**	**9,244**	**1.3**	**0.2**	**9,122**	**7,963**	**(12.7)**	**(1.9)**
Contingency Reserve	–	1.9	–	–	–	132	–	–	–	114	–	–
Surplus/ (Deficit)	(14.0)	0.0	–	–	(1,059)	0.0	–	–	(1,059)	0.0	–	–
Net Debt	214.5	300.1	39.9	4.9	16,216	20,888	28.8	3.7	16,216	17,994	11.0	1.5
Net Debt/ GDP	35.0%	37.0%	–	–	–	–	–	–	–	–	–	–

* Certain figures may not add due to rounding.

** CAGR = Compound Annual Growth Rate.

*** Deflated by the CPI.

Not every program should grow at the 0.8 per cent rate that is our limit. But if some programs grow faster, other programs will have to grow more slowly or even shrink. For example, if health care continues to grow by 6.3 per cent per year — its track record over the previous five years — then all programs other than health would have to contract by 4.1 per cent annually to meet our target. Health care would run roughshod over every other priority; it would gut every other government service that Ontarians rely on for their education, social welfare, justice system, infrastructure needs and a host of other programs that matter to the people of this province. This cannot be our future.

Another choice Ontarians must face in the months ahead involves labour compensation. Since the total bill for wages, salaries and benefits accounts for about half of all Ontario government program spending, it is difficult to believe that program spending can be held to annual growth of 0.8 per cent if labour costs rise appreciably.

Having developed a number of scenarios for program spending, we have opted to recommend one that counts on very restrained growth in health care outlays to leave room for spending growth in some other programs. We believe there is ample scope in the health care system for efficiencies that will allow health care providers to deliver the services Ontarians need without getting annual increases of the kind seen in recent years.

Accordingly, we recommend the following annual changes in program spending out to 2017–18:

- Health care — plus 2.5 per cent;
- Education — plus 1.0 per cent;
- Post-secondary education (excluding training) — plus 1.5 per cent;
- Social programs — plus 0.5 per cent; and
- All other programs — minus 2.4 per cent.

This permits post-secondary education grants to almost keep pace with enrolment and provides a realistic path for non-health, non-education, non-social services spending. For the latter programs, it represents a very significant degree of restraint: a cumulative decline in the level of spending of 15.6 per cent over seven years. But a significant portion of this "everything else" category is either fully committed by historical arrangements such as amortization and pension contributions, or simply unwise to cut, such as existing shared-cost agreements, where the province would be giving up federal dollars. For everything other than these fixed items, the cumulative decline would come to about 27 per cent. If we attach dollar signs to these changes, we find that in 2017–18, total program spending will be up $6.3 billion from 2010–11. Health will have $8.4 billion more; education (elementary and secondary), $1.6 billion more; post-secondary education, $0.7 billion more; and social services, $0.5 billion more. All other programs will have $4.0 billion less, while changes to reserves and year-end savings will make up the difference.

Ontario's finances do not yet constitute a crisis, and with early strong action a crisis can be averted. Crises almost inevitably bring forth bad public policy decisions born of desperation. The lessons of history and of what is happening elsewhere today are clear: the government must take daring fiscal action early, before today's challenges are transformed into tomorrow's crisis. Unlike a crisis, a challenge can be met with well-considered, firm, steady and even imaginative action that deals with the problems methodically and phases in the needed changes over a period of years, giving people a chance to adjust. The government's decision to create the Commission and give it a broad mandate to address near- and long-term fiscal issues signals its intent to address these challenges and head off any crisis. Our goal in this report is to set out the kind of measures that will meet the task.

The Fiscal Challenge

Closing the budget gap by 2017–18 will not be easy. However, many Canadian governments have successfully faced deep fiscal problems in the past two decades and in the process have strengthened their capacity to deal with fresh challenges as they came along. Most of those episodes occurred in the 1990s, when a sharp recession was followed by a recovery that was halting at first before gathering enough momentum to generate a solid expansion. Economic growth helped governments back to fiscal health, but many restrained spending significantly and some raised taxes. This time, economic growth may not even be strong enough to lend much of a hand.

The federal government's elimination of the deficit between 1995 and 1998 is the best-known example. Departmental operating budgets, as well as grants and contributions, were reduced by 15 per cent to 25 per cent, while transfers to the provinces were cut by more than 21 per cent over two years. Seven of every eight dollars needed to eliminate the deficit came from spending restraint rather than revenue-generating measures. Program spending fell by almost 10 per cent in the first two years of the restraint period and remained below the pre-restraint peak for five years.

Four provinces that carried out vigorous and successful deficit-cutting exercises — Alberta, Saskatchewan, New Brunswick and Ontario — all relied on spending restraint or outright cuts to a much greater extent than tax increases. In Alberta, total spending on programs fell by almost 22 per cent in three years and remained below its peak for six years. Saskatchewan, which had come close to defaulting on its debt, used a mix of spending cuts and tax increases. Program spending was cut by 10 per cent from the peak, but the restraint period lasted a full seven years. New Brunswick's two episodes of restraint in the 1980s and 1990s produced a mixed record. The first relied mainly on revenue increases. The second was tackled with a combination of tight expenditure curbs and revenue-raising measures, but government spending fell in only one of the restraint years.

In Ontario, a deep recession and five years of deficits raised the debt ratio from 12.7 per cent in 1989–90 to 29.2 per cent in 1994–95. After the 1995 election, the Harris government substantially reined in spending, with the exception of health care; the two most dramatic moves were a 22 per cent cut in social assistance rates and a downloading of program responsibilities to municipal governments, with a partial fiscal offset from other changes in Ontario–municipal relations and the induced reductions in overall welfare expenditures. Strong economic and revenue growth after 1995 helped the province balance its budget by 1999–2000, by which time spending had begun to rise again.

Despite the lasting reputation of the Harris government, program spending fell by only 3.9 per cent from its 1995–96 peak and stayed below the peak for only three years, a period of restraint that was both milder and much shorter in comparison with Alberta and Saskatchewan. Even Quebec cut program spending by more than Ontario during this period — 4.6 per cent over two years.

How does our scenario for the period from 2010–11 through 2017–18 compare with the 1990s?[1] Our Preferred Scenario projects that revenue will grow by 3.4 per cent annually from 2010–11 to 2017–18. Between 1993–94 and 1999–2000, the recovery period from deficit in the 1990s, revenue grew by a robust 4.7 per cent per year, even though taxes were cut after 1995. The *2011 Budget* clearly signalled the government's intention to restrain spending in the seven years to 2017–18. Remarkably, the implications of the spending goal went almost entirely unremarked by the public in the months since the *Budget* was released. In setting out a target for program spending in 2017–18, the government's Budget Scenario was pointing to a steady decline in real program spending per capita, averaging 1.9 per cent per year. Startlingly, this compares with a real per capita decline in program spending averaging 2.0 per cent per year between 1993–94 and 1999–2000. Ontarians did not notice that the *2011 Budget* was projecting seven years of real per capita spending cuts that looked very much like the 1990s.

Unfortunately, the Commission believes that will not be enough. Given our greater caution in projecting revenue growth, our Preferred Scenario suggested that program spending — again on a real per capita basis — will have to fall by 2.5 per cent per year.

The 1990s cuts probably appear smaller than the figures many Ontarians remember. But in 1999–2000, as the budget approached balance, program spending increased by 3.0 per cent as the government loosened the purse strings to deal with the pressures that had accumulated; health spending alone increased by 11.4 per cent.

The lesson here is that governments can hold the lid on spending for a while by taking extraordinary measures to contain compensation costs, postpone capital projects and scrimp on infrastructure maintenance. But unless fundamental spending reforms are implemented, the old pressures reassert themselves and governments with newly balanced budgets have a hard time resisting them.

Ontario is neither a high-tax nor high-spend province. It does not enjoy the easy pickings of natural resource revenue, nor is it a major recipient of federal transfers in comparison with the rest of Canada. To meet its own goal of a balanced budget in seven years, the government will have to cut program spending more deeply on a real per capita basis, and over a much longer period of time, than the Harris government did in the 1990s. Moreover, it does not have the option of an immediate deep cut in social assistance rates, which have not greatly recovered from a 22 per cent cut in 1995. It will have to maintain restraint for as long as Alberta's Klein government and Saskatchewan's Romanow government in the 1990s, recognizing that Alberta also made deep cuts to social assistance payments, while Saskatchewan raised taxes to help meet its goal.

1 Accounting changes have forced us to use a six-year period in the 1990s.

The ultimate challenge in the years ahead will be to find ways to make government work better and preserve as much as possible the programs Ontarians cherish most.

Mandate and Approach

There are five parts to our mandate:

1. Advise on how to balance the budget earlier than 2017–18.

Given the deterioration in the economic outlook since the *2011 Budget*, we believe an earlier target for balance is neither practical nor desirable.

2. Once the budget is balanced, ensure a sustainable fiscal environment.

Our proposals aim to keep the budget roughly in balance after 2017–18. We attach great importance to this goal.

3. Ensure that the government is getting value for money in all its activities.

We see this as a requirement to recommend ways of ensuring that all programs and services achieve the best possible outcomes within available resources.

4. Do not recommend privatization of health care or education.

We interpret this to mean that health care must be kept within the public payer model. We do not interpret it as denying opportunities for private-sector delivery of services, if that is more efficient. We interpret our education mandate to mean that we will not advocate any shift to educational institutions that are predominantly financed from private revenue.

5. Do not recommend tax increases.

Although our mandate precludes us from recommending higher taxes, we do recommend ways to raise more revenue without adjusting tax rates.

We have developed a number of broad guidelines for our recommended actions. Government ministries and agencies should always strive for efficiency gains, not only when driven by overall budget restraint or in response to problems unearthed by the Auditor General or exposed by a spending scandal. We have also drawn lessons from both public- and private-sector restructurings, a series of “dos and don’ts” that we will set out in reverse order.

The “don’ts” are proposals that sound useful, but are often harmful:

- Do not simply cut costs. The imperative to restrain spending should instead be an opportunity to reform programs and service delivery;
- Avoid across-the-board cuts. They represent an abdication of the government’s responsibility to make real, and often difficult, decisions;
- Avoid setting targets for the size of the civil service. A leaner civil service will be an inevitable result of lower-cost programs and achieving greater value for money;
- Do not rely unduly on hiring freezes and attrition to reduce the size of the civil service;
- Do not hang onto public assets or public service delivery when better options exist; and
- Do not resort to traditional short-term fixes.

The “dos” apply across the entire public sector:

- The government should issue a road map setting out its vision. Such a document would both inform the public about the changes that lie ahead and also serve as a script for all bureaucrats;
- Higher priority should be given to programs and activities that invest in the future rather than serve the status quo;
- Policy development should be more evidence-based — with clear objectives set based on sound research and evidence — and relevant data collected and used to evaluate programs;
- Governments must minimize the cost of operations, but they also need rules to ensure that taxpayers’ money is not abused. The pendulum has now swung too far towards excessive rules, with too many layers of watchers at the expense of people who actually get things done. The Ontario government must find a new middle ground;
- Within their operations, public-sector service providers should assign people to jobs where they are most effective, efficient and affordable;
- Seek common themes across the reforms to achieve economies of scale and to simplify communications; and
- Reform must be pervasive and speedy. Broader action favours a public perception that the reforms are fair, as opposed to a view that a few programs were unfairly targeted. Change is disruptive, but the medicine does not go down more easily if it is dragged out over a long period.

We can perhaps shoot for a grander goal — a province that provides the best public services, delivered in the most efficient manner, in the world. If this sounds impossibly ambitious, put the question another way: Why not? We goad our business sector to win new customers globally in the face of stiff competition. Why not apply the same standards to our government? Why not give our public servants an objective that can turn the task of transformation — which will at times be a very tough slog — into a project that becomes a source of real pride?

What does being the best at public policy and services look like?

Public service would be an honourable calling that would draw the province's best and brightest people into government. The best public service would set clear objectives, use proper metrics to measure progress and provide clear accountability for those expected to meet the objectives. It would benchmark itself against the best in the world. It would constantly evaluate priorities; if a new priority is identified, others would move down a spot and some, now outdated, would be discarded. It would drive relentlessly towards effectiveness and efficiency. It would focus on outcomes, not inputs, and give managers the flexibility to do the job best within their budget. It would approach risk from a scientific basis.

The task ahead need not be dreary. Many will scoff that the very idea of creating an organization that delivers the world's best public services is hopelessly naive, and that we should not even think of such lofty goals. But high ambition should never be sneered at. Such an objective could instil in our politicians, our public servants and all Ontarians a sense of purpose that would help see us all through this monumental mission.

Why not?

Making Transformation Work: Process and Structures

Ontarians are not prepared for the severity of the restraint needed to balance the budget by 2017–18. Raising public awareness of the challenge must be done early, clearly and consistently. The *2012 Budget* should set out as much detail of the restraint as feasible.

In any organization, a major transformation can succeed only if it is clearly led from the top. Once the Budget is crafted, the task of ensuring that the spending targets turn into firm action falls to the Premier's Office and the Cabinet Office. It must be clear to all that the Premier's Office is giving full moral and organizational support to the effort.

The budget process itself needs some reforms. The annual budget can be a powerful educational tool both for Ontarians in general and for public-sector officials. Transparency, clarity, the use of reserves and a long-term perspective are all virtues in budget-making; there is now too little of all four.

Several measures would strengthen the fiscal planning process. For example, the *2012 Budget* should contain a "clean status quo" fiscal projection out to 2017–18 that reflects only decisions and actions already taken. From this base, any savings from firm new actions should be shown. Without tax increases, it will be difficult for Ontario to return to a balanced budget earlier than 2017–18, so this date should remain the target. In the full report, we set out 12 steps that would increase the probability of securing the 2017–18 target, including the use of prudent economic growth forecasts, an adequate contingency reserve that grows over time and spending limits for the seven years to 2017–18 for each ministry and agency.

There are three critical ingredients to successful reforms:

1. The objectives and means of the reform must be explained clearly and transparently;
2. The substance of the reforms must be sound and make sense to citizens, officials and politicians; and
3. There must be appropriate internal processes to deliver the desired outcomes.

Ministers and their officials should be given a great deal of discretion in deciding how to implement reforms. However, there are several government-wide issues that many ministries will face in common. These include labour issues; duplication of programs and services; the possibility that services can be delivered in more efficient ways; and managing the province's considerable assets, where a common approach is desirable. Ministers and officials can learn from each other by coming together on such questions.

Latitude for discretionary action notwithstanding, a vigilant watch must be maintained on how the individual reforms are coming together. A Steering Committee, with representation from the Premier's Office, Cabinet Office and Ministry of Finance, should be the focal point for the work necessary to implement all reforms and monitor the reform exercise.

Prior to formal Cabinet consideration, proposals should be vetted by a Premier's results table on strategic reform, which would be the main forum for both championing and contesting reform proposals. The results table would be chaired by the Premier and comprise senior Cabinet ministers and independent experts with relevant experience in cost-cutting and transformational change. This group would be supported by the steering committee, ensuring the involvement of senior staff from the Premier's Office and Cabinet Office, and senior officials from the Ministry of Finance.

This structure should stay in place for at least several years and some parts of it should become permanent to deal with issues such as overlap and duplication.

Health

Health care is at once the biggest item in the Ontario government's budget, the issue of most concern to Ontarians, the source of the most intense and emotional public policy debate, and the centre of the most complex delivery system of any set of programs financed by the provincial government. For at least two decades now, Ontarians — along with other Canadians — have worried about the quality and accessibility of their health care. As health has consumed a rising share of the provincial budget, the debate has increasingly focused on the very sustainability of the health care system in a form that gives Ontarians what they want.

There are only hard answers and difficult solutions. We must reform the health care system to make it operate more efficiently and give us greater value for the money we now spend on it. This is not easy. The public debate has been poisoned in recent decades by a widespread failure to comprehend the trade-offs that must be made; by knee-jerk reactions to worthy but complex ideas for change; by politicians (and media outlets) who have been too willing to pander to fear-mongering; by stakeholders in the health care system who, wishing to cling to the status quo, resist change; and generally by a lack of open-minded acceptance of the reality that change is needed now and that money alone will solve nothing.

The parts should work better together, so that the whole is greater than — or at the very least equal to — the sum of the parts. Such change is already underway in bits and pieces. Health care providers in every corner of the system recognize far better than the politicians or the public what needs to be done and — perhaps more importantly — what no longer needs to be done. They are moving the system incrementally towards the greater integration that is utterly necessary. What they need is more encouragement from government plus financial incentives that will change behaviour in ways that will produce a health care system that better serves us all.

The vital first step is a long-term view. The government must set out a 20-year plan with a vision that all Ontarians can understand and accept as both necessary and desirable — a plan that will, though it involves tough decisions in the short term, deliver a superior health care system down the road.

Reform must shift the system from one built mainly for acute care to one built mainly for chronic care. Quality of care and efficiency are essential. Better care delivered smoothly and briskly will benefit patients and providers alike; it will also save money. Quality and efficiency go hand in hand. Too often, treatment delayed is treatment diminished.

We will recommend a number of ways in which this can be done. Before we get to those proposals, however, we will sketch out what we regard as the most salient facts about health care and the perspectives we bring to the issue.

Health care is the Ontario government's single biggest spending program. In 2010–11, the province spent $44.8 billion on health — 40.3 per cent of its total spending on programs. The cost of health care is driven by inflation, population growth, aging, new technology and the increasing use of new procedures. Rising costs have been a subject of intense public attention and discussion for at least two decades. The trajectory of ever-more-costly health care will moderate only modestly if left to operate as it does now.

In 2010–11, operation of hospitals accounted for about 35 per cent of provincial health care spending, and doctors and practitioners, about 27 per cent; almost eight per cent each went to prescription drugs and long-term care, and another six per cent to community care. The remaining 17 per cent financed everything else.

In our Status Quo Scenario, the one that relies heavily on existing drivers to project the overall cost of government programs, Ontario's health care budget rises to $62.5 billion by 2017–18, for an average annual increase of 4.9 per cent from 2010–11. In our Preferred Scenario, we have set out a much more modest path for health care spending: an increase of 2.5 per cent per year.

Polls reveal large gaps between how we run health care in Canada and what Canadians say they want. Most Canadians, for example, want medicare to cover home care, long-term care, mental health care and drug benefits. Ontarians are wedded to the single, public payer model of health care and will not tolerate any deterioration in access and quality of care. There also seems to be less concern that all services be delivered under public administration, as long as the bill can be paid with an OHIP card. Ontarians want their health care system not only sustained, but also improved.

It is easy to be smug when we compare ourselves with the United States, which spends far more than Canada relative to both its population and its GDP, yet in 2010 left over 16 per cent of its population uncovered by health insurance. If we compare ourselves to countries other than the United States, however, we often come up short. We need to do more and we need to do better; and we need to do both on a tight budget.

Some context — a series of hard truths, measures and comparisons about health care in Ontario — will help frame the discussion.

The health care system is not really a system: What we have is a series of disjointed services in many silos. Ontario needs to integrate these silos and reduce administrative red tape that impedes efficient and effective service.

The health care system is costly: Canada has one of the costliest health care systems in the world, which may surprise people who are too accustomed to comparing our record only to that of the United States. But among 34 countries in the Organization for Economic Co-operation and Development (OECD), Canada had the sixth most expensive system in 2009 and was not far behind the second most expensive one.

The system is not as public as most people think: The public component of health care accounted for over 70 per cent of all health care spending in 2009. Of 27 OECD countries reporting such data for that year, Canada ranked 19th. Medicare does not cover out-of-hospital drugs, nursing, psychology and other counselling, community mental health services, nutrition advice, ambulance services, addiction treatment, long-term care, eye care or dental care.

The health care system is only part of the picture: Only 25 per cent of the population's health outcomes can be attributed to the health care system. Yet amazingly, the three-quarters of environmental factors that account for health outcomes, such as education and income, barely register in the health care debate.

The system does not produce superior results: Despite its high cost, our system does not produce superior results on a value-for-money basis relative to other countries.

We have fewer physicians than other jurisdictions: At 19 physicians per 10,000 people, Canada is well below continental European G7 countries, where most are well into the 30s.

Canada falls short on many measures: One study ranked Canada 17th in the percentage of total life expectancy that will be lived in full health, 24th in infant mortality and second in the incidence of mortality from colon cancer.

But Ontario's is the best system within Canada: There is some evidence that, on important matters, Ontario has one of the best or even the best system within Canada.

Drug costs are growing faster than other health spending: Pharmaceuticals have been the fastest-growing component of health care costs in recent decades. The OECD reports that Canadian generic drug prices are the highest among member countries.

There are inefficiencies in the health care system: The use of some surgical procedures far exceeds clinical guidelines. Too many hospital patients could get better-quality care at a lower overall cost elsewhere in the system. Researchers at OECD estimated that if Canada became as efficient as the best-performing countries, efficiency gains could amount to almost 30 per cent of public-sector spending.

Complex cases drive costs: About one per cent of Ontario's population accounts for 34 per cent of health care costs, and 10 per cent of the population accounts for 79 per cent, according to a 2011 study. The people in the one per cent group are frequently in and out of our health care system, constantly being admitted and readmitted into hospitals.

Mental health and addiction issues are also cost drivers: The economic costs of mental health and addiction have been estimated at $39 billion annually, three-quarters of those from productivity losses. Ripple effects are felt in the justice, educational and social services sectors.

Our health system developed to deal with acute care and largely remains in that mode. Today, the key health issues are increasingly shifting to chronic care questions, in good part because the population is aging, but also because some lifestyle problems such as obesity are creating particular health conditions. The OECD projects that the total public and private cost of long-term care will more than double from an estimated 1.4 per cent of GDP in 2006 to 3.3 per cent by 2050.

The ideal health system would emphasize the prevention of poor health. It would be patient-centric and would feature co-ordination along the complete continuum of care that a patient might need. Primary care would be the main point of contact, but there would be much less emphasis on treating patients in hospitals. All professionals would exercise the full scope of their skills in their work; nurses, for example, would administer vaccines, and nurse practitioners would manage chronic illnesses such as diabetes and high blood pressure. Payment schemes and information gathering would support the patient-centric notion. Compensation for hospitals and physicians would be tied to outcomes of health rather than to the inputs or services.

The old system and an ideal reformed system are laid out in the accompanying charts.

Current System → **Transforming to** → **Reformed System**

Current System	Reformed System
General Approach	
• Intervention after a problem occurs • Acute care • Hospital-centric • Silos • Resource-intensive minority of patients in regular system • Accept socio-economic weaknesses • Extraordinary interventions at end of life	• Health promotion • Chronic care • Patient-centric • Co-ordination across a continuum of care • Dedicated channels for the resource-intensive minority • Address socio-economic weaknesses • Pre-agreements on end-of-life care
Hospitals	
• Draw patients to hospitals • Historical cost plus inflation financing • Managed through central government • Homogeneous, all trying to offer all services	• Keep patients out of hospitals • Blend of base funding and pay-by-activity • Regional management • Differentiation and specialization along with specialized clinics
Long-Term Care, Community Care and Home Care	
• Not integrated, underfunded and weight on long-term care	• Integrated with weight on home care
Physicians and Other Professionals	
• Not integrated with hospitals and other sectors • Work alone or in groups • Mostly fee-for-service funding • Few standards for medical approaches/conduct of practice • Unclear objectives and weak accountability • Inefficient allocation of responsibilities	• Integrated with primary care being the hub for most patients • Work in clinics • Blend of salary/capitation and fee-for-outcomes • Evidence-based guidelines (through quality councils) • Objectives from regional health authorities and accountability buttressed by electronic records • Allocation in accordance with respective skills and costs; and where feasible shifting services to lower-cost care-providers
Pharmaceuticals	
• Little cost discipline from governments • Cost of plans to private employers driven in good part by employees	• Cost discipline through purchasing power, guidelines for conduct of practice • Greater control exercised by employers

Current System → **Transforming to** → **Reformed System**

Current System	Reformed System
Service Delivery	
• Mostly public sector	• Blend of public and private sector (within public payer model)
Information Technology	
• Little used by physicians and especially across the system • Information conveyed in doctors' offices	• Extensive use that is key to co-ordination across system and accountability • Information more easily available and conveyed through multiple sources (phone, Internet, etc.)
Medical Schools	
• No attention to system (cost) issues • Little attention to labour supply issues	• Course(s) on system issues • Role in directing physicians to areas of demand (by area of medicine and geographically)
Coverage of Public Payer Model	
• Hybrid with almost 100 per cent primary, less than half of drugs and limited mental health	• Broader coverage widely recommended but not at all clear this will be acted upon

Here is a summary of the kind of changes we seek: a shift towards health promotion rather than after-the-problem treatment; a system centred on patients rather than hospitals; more attention to chronic care; co-ordination across a broad continuum of care rather than independent silos that allow too many people to fall between the cracks; and new ways of dealing with the small minority of patients who require intensive care.

Rather than draw patients to hospitals, we should direct them to the most appropriate care setting for their problem — whether it is a doctor's office, family care centre or clinic, rehabilitation centre, long-term care centre or back home. Physicians and other professionals tend to work alone or in small groups where they are not integrated with other sectors of the health care system. Family Health Teams (FHTs) go some way to meeting this goal, but tend to be too small, with too few physicians, and cover too narrow a range of services.

Regional health authorities should establish what expectations professionals should meet and accountability should be strengthened by electronic records.

Medical schools should add at least one course introducing their students to the broader system in which they will spend their careers, and where physicians fit. The government should do more to direct physicians to areas of need.

The government should exercise greater cost control over pharmaceuticals; the recent move to reduce the cost of generic drugs was a fine first step. Private-sector employers should also exercise greater control over the cost of drug plans they offer their employees.

Long-term care, community care and home care are underfunded, with too much emphasis on long-term care facilities and too little integration of services.

As long as government pays for all covered services, it should allow both the public and private sectors to play a role in service delivery. Most family physicians are private-sector operators paid by OHIP, and private companies now provide publicly funded laboratory work.

Information technology (IT) is used too little across the system in a way that allows the integration of different activities. Extensive use of IT is key to pushing the health care system to operate in a co-ordinated fashion. Better to build from the bottom up.

The public payer model covers most primary care but less than half of drugs and relatively few mental health services. Extending medicare to more services would be controversial, but an open dialogue will at some point become necessary; the government should at least launch such a dialogue.

We must stress two things. First, the health care landscape is not nearly as black and white as the previous chart implies. Many segments of the old system are already moving towards the reformed system. Second, none of what we have said will surprise anyone who manages part of the health care system today. Many are already pushing the system towards needed reforms.

These ideas are in no way radical; but too many of them have been stifled in public debate by politicians, interest groups and stakeholders who regard even the most sensible reform proposals as threats to medicare rather than solutions to medicare's problems. No one who manages a part of the system argues that more money alone is the solution to the problems of the health care system. Some argue that too much money would simply impede needed reforms. To date, more money has not bought change; only more of the same, at higher cost.

Ontario created 14 Local Health Integration Networks (LHINs) to co-ordinate care on a regional basis. In theory, the LHINs have the authority to allocate budgets across the various components of care; in practice, they do not.

There is an abundance of opportunities for reform that will create a system that can deliver better-quality care more efficiently. The challenge is to realize those opportunities.

Our recommendations are intended to further strengthen the existing system, in part by pushing ahead with the original plans for integrated regional health delivery.

Our first recommendation is that the government should develop and publish a comprehensive plan to address health care challenges over the next 20 years. The plan should set out clear principles and deal plainly with the issues we raise and our proposals for reform.

All patients not requiring acute care should be diverted from hospitals to more appropriate care that will be less expensive, improve the patient experience and reduce the patient's exposure to new health risks. Upon presentation of a health card, the government will pay for the services rendered. Home-based care should be used more extensively.

All health services in a region must be integrated, including primary care physicians, acute care hospitals, long-term care, Community Care Access Centres (CCACs), home care, public health, walk-in clinics, FHTs, Community Health Centres (CHCs) and Nurse Practitioner-Led Clinics (NPLCs). Exceptions to the regional system are specialized health facilities that have provincewide responsibilities, such as the Hospital for Sick Children, the Princess Margaret Hospital and the Centre for Addiction and Mental Health.

The government's health budget should be capped at 2.5 per cent or less annual growth through 2017–18. After that, annual health cost increases must be restrained to no more than five per cent. Some areas — including community health care and mental health — will need to grow more rapidly than the average, and the province should address the historic gap in funding and services for mental health and addiction.

The government should set the overall principles, but deliver health care on a regional basis. A regional health authority should integrate services and institutions across the full continuum of care for a geographic area. The co-ordinating entity must have the authority, accountabilities and resources necessary to oversee health within the region; it must further have the power to allocate budgets, hold stakeholders accountable and set incentive systems.

We considered four possible coordinators: The regional offices of the Ministry of Health and Long-Term Care (MOHLTC), a reversion to the old system; the CCACs; the large, mostly academic, hospitals; and reconstituted LHINs. We favour LHINs, which will need to execute three key roles: planning and integrating the system, funding and case management.

Planning and Integrating the System: Reconstituted LHINs first need to work with other stakeholders to streamline the more than 2,500 funded health agencies in Ontario. This would involve further amalgamating hospitals and reducing the number of boards, consolidating health service agencies where appropriate and establishing advisory panels with representation of stakeholders. Second, LHINs should integrate care by sharing information on patients among health care providers, co-ordinating decisions and allocating funds to best reflect regional needs. Information from funding models such as the Health-Based Allocation Model (HBAM) should be used to identify service gaps and evaluate progress in managing high-use populations.

The LHINs should optimize human resources capacity by shifting services to lower-cost caregivers where feasible and encouraging full scope of practice — a net shift in responsibilities from physicians to nurses and others in health teams, including physician assistants. The LHINs should use funding as a lever to ensure that nurses, nurse practitioners, personal support workers and other staff members can apply their full range of skills.

Out-of-hospital services — for outpatients as an example — should fall to others, such as the CCACs and private health care operators, which have demonstrated that they can do this sort of work for much less than hospitals. The LHINs should also resist the temptation to build many more long-term care facilities until the government can assess if more can be done for an aging population by further emphasizing the use of home-based care, supported by community services. Home-based care is less expensive and should generate greater population satisfaction.

Funding: The government should give LHINs the authority, accountabilities and resources necessary to oversee health within their regions, including allocating budgets, holding stakeholders accountable and setting incentive systems. The LHINs should deal with all aspects of the health system's performance, including primary care (physicians), acute care (hospitals), community care and long-term care. This would include setting budgets and compensation for all players. Compensation for senior executives should be tied to health outcomes, not the number of interventions performed.

Case Management: There is a lack of smooth and consistent patient case management. "Clerical system navigators" who co-ordinate appointments and help patients with forms and paperwork, a role developed in some parts of Ontario, should be used across the entire system. "Quarterbacks" can help FHTs and specialized clinics track patients as they move through the integrated health system. Complex care patients should be managed through interprofessional, team-based approaches to maximize co-ordination with FHTs and other community care providers. Chronic issues should be handled by community and home-based care to the fullest extent possible.

Revamped LHINs would need solid governance and structures. A key element of governance, if they are to co-ordinate the system, is appropriate representation. Their need for more resources would entail a significant transfer of employees from the MOHLTC. Government needs to stand by the LHINs' decisions, even if they close a facility.

Decisions regarding medical procedures covered under OHIP are now part of the compensation package negotiated by the government and the Ontario Medical Association (OMA). Doctors should be consulted, but no more.

Evidence should drive policy. Medicine is ever-changing and it is difficult for doctors to keep up with the latest research and best practices. They need research-based clinical guidelines to help them stay current. In Ontario, these can come from the Institute for Clinical Evaluative Sciences (ICES) and Health Quality Ontario (HQO). These agencies could also help the government decide which procedures might be removed from public coverage. Health Quality Ontario should become a regulatory body that would enforce evidence-based directives to guide treatment decisions and OHIP coverage.

Hospitals are paid on the basis of average costs across the province so there is no incentive to increase efficiency. The MOHLTC and LHINs should use HBAM data to set hospital compensation for procedures. A blend of activity-based funding (i.e., funding related to interventions or outcomes) and base funding would work best. Hospitals should be encouraged to specialize. Hospitals should also make greater use of hospitalists — physicians who co-ordinate inpatient care from admission to discharge. This role is crucial when dealing with patients with complex cases where multiple specialists may be involved in their care.

Primary care, the domain of physicians, should be a focal point in a new, integrated health model. Physicians' primary goal should be prevention and keeping people out of hospitals. The system should move away from the sole proprietorship nature of many doctors' offices and encourage more interdisciplinary integration. Physicians should be compensated through a blend of salary/capitation and fee-for-service; the right balance is probably in the area of 70 per cent for the former and 30 per cent for the latter.

The government should firmly negotiate its next agreement with the OMA. Ontario's doctors are the best paid in the country, so it is reasonable to set a goal of allowing no increase in the total compensation envelope. The negotiations must also address the integration of physicians into the rest of the health care system.

Family Health Teams should become the norm for primary care. They need to be big enough to support a wide range of care providers and the number of other staff needed to track people through the system. They should offer better after-hours care and add more specialists to their teams. The FHTs should also initiate discussions with their middle-aged patients about end-of-life health care and "living wills," so that patients and their families do not have to make such critical decisions under duress. The MOHLTC should seek input from seniors' advocacy organizations to engage the public in an open dialogue on end-of-life care.

The government should remove perverse incentives that undermine care: physicians are penalized when one of their patients goes to another walk-in clinic but not when the patient goes to the emergency department of a hospital.

The aging of Ontario's population underlines the need for reforms to community care, home care and long-term care. We need to match seniors to the services they need from the earliest available care provider, reduce the number of days people spend in hospitals when another form of care is more appropriate, and improve the management of referrals for long-term care, home care and community services. The government should implement the recommendations made by Dr. David Walker, in his 2011 report, "Caring for Our Aging Population and Addressing Alternate Level of Care." There is also a need for more — and more varied — palliative care.

The province should do more in the area of disease prevention and health promotion. Much public health work is done outside the primary health care sector. Funding for public health is strongly linked to municipal budgets. Municipalities now put up 25 cents of every public health dollar; many are now considering spending cuts that put public health units at risk of losing provincial support. The province should consider fully uploading public health to the provincial level. Better co-ordination of the public health system is needed to include hospitals, community care providers and primary care physicians. Ontario should copy British Columbia's Act Now initiative, which has been cited as a best-practice example for health promotion and chronic disease prevention. Doctors could do their part by addressing diet and exercise before reaching for the prescription pad. Patients should heed their doctor's advice and make lifestyle changes when requested. The province should do more to reverse the trend in childhood obesity and explore regulatory options for the food industry.

Medical schools should educate students on "system issues" so that they better understand where physicians fit in the whole health care system. The schools should also flag current or potential shortages and carry out the task of labour supply planning.

Pharmaceuticals are a major issue. Ontario needs an open, honest discussion of whether there should be more public coverage of pharmaceutical costs. At the same time, we should ask if payments under the Ontario Drug Benefit (ODB) program, which covers almost all of the cost of prescription drugs for seniors and recipients of social assistance, should be linked more directly to income. One option is to make the portion of pharmaceutical costs paid for by seniors rise more sharply as income increases. A better option is to link the benefit not to age, but to income only. This option would greatly strengthen the equity of the program and remove a large brick in the "welfare wall" by covering low-income non-seniors who do not receive social assistance. Savings would obviously be greater under the first option. The Commission regrets that there was no modelling of these options that would have clarified the net fiscal impact; it should be done. In 2003, British Columbia changed its age-dependent program into one that links solely to income.

One potential way to reduce overall drug costs is to pursue with other provinces the possibility of setting a common price for pharmaceuticals. Provinces could also reduce overlapping regulations that add costs and present barriers to new drugs entering the market efficiently. The ICES and HQO should also conduct drug comparisons to determine which is the most efficient at treating a given ailment; current tests by Health Canada do not do this. The government should ensure that all new drugs add value that exceeds their cost. As mentioned elsewhere, Ontario should work with the federal government to ensure that Ontario's interests in expanding use of generic drugs are not undermined by a Canada–EU Free Trade Agreement. The province should also use pharmacists to their full scope of practice, allowing them to substitute a less expensive alternative to the physician's prescription. They should also be allowed to administer injectables and inhalant medications and prescribe for minor ailments, as is done in Saskatchewan.

A number of other cost efficiencies are possible for the health care system:

- Centralize all back-office functions such as IT, human resources, finance and procurement;
- A central mechanism could oversee a "spot market" for goods and discretionary services, such as diagnostics, infusions and specialist consultation services;
- A wider array of specialist services could be put to tender based on price and quality, while remaining under the single payer model;
- More service delivery could also be put to tender, with the criteria for selection based on quality-adjusted metrics, not just price;
- Accelerate the adoption of electronic records, working from the bottom up. Begin with doctors, clinics and hospitals and ensure that they use compatible systems. Then build bridges within a region, then across regions;
- Adopt the Nova Scotia model in which emergency medical technicians provide home care when not on emergency calls; and
- Provide better information to individuals and families to facilitate self-care for people with conditions such as diabetes.

Above all, the government should involve all stakeholders in a mature conversation on the future of health care and the 20-year plan. Anything done in the health field can be politically dangerous, especially if cost restraint is involved. It will be critical to explain the objectives carefully and stress that this is not just another round of cost restraint.

The stars are aligning for just such a discussion. The stakeholders themselves are reaching out with proposals for reform, many of which are consistent with our recommendations here. All stakeholders must speak out — ordinary citizens and health care providers of all stripes, drug companies whose products are one of the fastest-growing costs, employers who cover their employees' drug and other health costs, and academics who study these issues.

The scale of reform we propose is vast, dealing with organizational, clinical and business issues. In the late 1990s, the Health Services Restructuring Commission was given power to expedite hospital restructuring and advise the Minister of Health. Given that the scale of reform being proposed in this report extends well beyond hospitals, a new commission should be established to guide the reforms, drawing from a broad range of stakeholder communities, including providers and citizens/patients.

We believe these recommendations can guide the health care system over the period to 2017–18 in a way that meets our target of a 2.5 per cent annual increase in health care funding by the province. This is a tough goal; it implies that real inflation-adjusted spending per person on health care will have to fall by a total of 5.7 per cent in the seven years from 2010–11, or 0.8 per cent per year. But we can reform the system to bring better care to more people at less cost.

It is the reforms that matter most. Major spending cuts solve little, as we saw in the 1990s. The health budget was cut for several years, but because thorough reforms were not undertaken, pressures built and spending took off again, beginning in 1999.

Beyond 2017–18, spending will probably accelerate as a consequence of population aging. This is why our recommendation for a 20-year plan and full public debate is crucial. The government should describe the challenges ahead, highlight the potential for more efficiency, discuss financial issues squarely and present the fundamental choices clearly. If we do not seize the opportunity now to begin creating a system that delivers more value for the money we spend, Ontarians a decade or two hence will face options far less attractive than the ones we face today. Unless we act now, they will be confronted with steadily escalating costs that force them to choose either to forgo many other government services that they treasure, pay higher taxes to cover a relentlessly growing health care bill, or privatize parts of the health care system, something that is anathema to most Ontarians.

We can and should avoid such an outcome by making the right decisions today, however tough they appear at the moment. Our decisions will not be perfect, but almost certainly, they will ensure that we bequeath a more equitable, more cost-efficient and higher-quality system to future generations.

Elementary and Secondary Education

A strong education system is critical to Ontario's prosperity and global competitiveness. We believe that this era of restraint presents an opportunity to deliver education as efficiently and effectively as possible.

The province funds nearly 98 per cent of education sector expenses. Over the past decade, provincial spending on elementary and secondary education has grown significantly despite declining student enrolment; one result has been a 56 per cent increase in per-pupil funding. This is not sustainable. The Commission believes the sector growth rate must be constrained to one per cent per year.

The government's challenge is to restrain education spending while protecting the scholastic progress achieved. The education sector should stay the course on its agenda of three key goals: improving student achievement; closing student achievement gaps; and increasing confidence in the publicly funded education system.

Because sound and transparent fiscal planning will enhance co-operation and stability, the province should set funding allocations to school boards out to 2017–18. Not only will this give boards time to find efficiencies, but also full knowledge of the budgetary future will support constructive collective bargaining later this year when the sector's collective agreements will be renegotiated.

First Nations Education: On-reserve First Nations education urgently needs improvement. Although this is a federal responsibility, the province is affected because most Aboriginal students are educated in provincially funded schools. Most on-reserve secondary students are educated off-reserve and the underfunding of on-reserve elementary schools often means that students arrive at the secondary level with acute remedial needs. Federal funding per student falls well short of parity with provincial education spending. The province should put strong pressure on the federal government to adequately fund on-reserve education at least at parity with per-student provincial funding. Failing an agreement with the federal government, the Commission recommends that the province provide the required funding. Agreements would include the facilitation of forming education entities among participating First Nations with powers similar to provincially funded district school boards, and negotiation of multi-year targets for the proportion of supervisory officers, principals and teachers who will be deemed qualified by the Ontario College of Teachers.

Full-Day Kindergarten (FDK): In 2010, FDK began in nearly 600 schools; another 200 schools were added in 2011 and some 900 more announced for the 2012–13 school year. There is substantial evidence that investments in early childhood education produce significant long-term socio-economic benefits. But costs associated with new staff, classroom supplies, transportation, other school operations, capital and stabilization for the child care sector will eventually amount to over $1.5 billion per year. In the current fiscal climate, the Commission is concerned that the timing is inappropriate. The Commission is aware that the costs of FDK were incorporated into the March *2011 Budget* and *2011 Ontario Economic Outlook and Fiscal Review* in November. However, not enough offsetting restraint was secured in other spending to ensure that these fiscal plans would achieve the overall deficit objective.

We recommend cancellation of the FDK program with appropriate phase-out provisions. If the government decides to continue implementation, it should do two things. First, it should delay full implementation from 2014–15 to 2017–18 and reduce FDK program costs by adopting a more affordable staffing model of one teacher for about 20 students, rather than a teacher and an early childhood educator for 26 students. Second, before confirming full implementation of FDK, it should get assurances from school boards, teacher federations and support staff unions that negotiated annual wage increases by 2017–18 will be no higher than current trends in the broader public sector (BPS), and that class-size increases and reductions in non-teaching staff contemplated by the Commission by 2017–18 will be achieved.

Class Sizes: One of Ontario's fundamental strategies to improve student achievement has been to reduce class sizes in primary schools (junior kindergarten to Grade 3). Some 90 per cent of classes now have 20 students or fewer, and none has more than 23. The government has committed significant resources to class-size reductions at the primary and other levels. While the government has emphasized that smaller classes promote better education outcomes, empirical evidence presents a more complicated picture. Ontario's recent improvements on provincial assessments and quality indicators have coincided with reduced class sizes, but there is no evidence of causality. Even if smaller classes had some impact on outcomes, the evidence suggests that investments in smaller classes do not offer the most efficient means for improving results. Given this lack of convincing empirical support, the Commission believes that scarce resources should not be applied to reducing class sizes. We recommend increasing the class-size cap for primary schools from 20 to 23, and increasing the class-size averages in junior/intermediate schools from 24.5 to 26 and in secondary schools from 22 to 24. The Commission supports continued emphasis on programs that have proven critical to increasing graduation rates. Class sizes should be increased in a manner that does not jeopardize programs that have helped increase graduation rates and benefited Ontario students.

Non-Teaching Staff: Since 2002–03, staffing has increased by more than 13,800 for non-teaching positions. To meet our target growth rate in education spending of one per cent per year to 2017–18, the Commission projects that about 70 per cent of these positions will need to be phased out by that year. Boards will have to minimize the impact of this reduction on school operations.

Limits to Funded Secondary School Credits: To get a secondary school diploma, Ontario students must complete 30 secondary school credits. Many students, however, are completing more than 30 credits; 14 per cent of Grade 12 students return for a fifth year. This is costly. The Commission recommends that public funding be capped at 32 successful credits per student. School boards should be allowed to charge a fee for additional credits.

Encouraging Efficient Student Transportation: Transporting students to school poses a challenge to school boards, with costs difficult to contain. The Ministry of Education recently placed a moratorium on new competitive procurement. This should immediately be lifted, since it delays getting efficient, effective student transportation service through competitive bidding. Users may have to bear a portion of the cost through a student transportation fee, with provisions to ensure that lower-income, special needs and rural students are not restricted in their access to learning.

A Comprehensive Plan to Live With One Per Cent Annual Growth: Our one per cent limit on annual growth in the education budget means the sector will have $1.6 billion more to spend in 2017–18 than in 2010–11. In our Status Quo Scenario, existing cost pressures point to increases that will add $4.4 billion to the bill, leaving a shortfall of $2.8 billion. We believe the recommendations already set out will eliminate this shortfall.

We assume that school boards would seek further efficiencies or other revenues to offset cost pressures such as benefits, utilities, fuel and so on. The following recommendations, while not costed explicitly, have been developed in that spirit.

Promoting Evidence-Based Solutions in Special Education: Special education grants account for a significant portion of education spending at $2.5 billion in 2011–12, a 55 per cent increase since 2002–03 despite declining enrolment. The link between increased funding and outcomes for students is not obvious. The Commission commends the province's focus on supporting students with special needs, but we must direct every dollar to where it will have the most impact. We recommend a full review of the province's special education programs and the results achieved, including programs for students in care, custody or treatment, and hospital boards, with a view to ensuring that funding is being used effectively to improve student outcomes. For clarity, we do not believe there is a "problem" with the overall special education funding envelope. Our concern is the lack of measurable outcomes for the significant investments made since 2002–03.

Reform of Provincial Schools: The ministry directly manages a number of schools for the deaf, demonstration schools for students with learning disabilities and schools for the blind and deaf blind, serving about 800 students in eight schools. School staff members are provincial employees; this is not the best governance arrangement. The government should close the demonstration schools and use the savings to expand alternative secondary school programs in school boards. The Schools for the Deaf should be consolidated into one site to achieve a greater critical mass of students from junior kindergarten to Grade 12. Savings from this consolidation should be reinvested in the School for the Deaf and in enhanced opportunities for deaf learners in school boards, colleges and universities.

Appropriate Incentives for Teachers: Because public education promotes child development and future prosperity, Ontario needs the best possible teachers. Research supports the link between quality teachers and student achievement. Ontario teachers are provided salary increases as incentives to engage in continued learning and development through the Qualification and Experience (Q&E) grant. It recognizes the experience they gain and allows them to move to the high end of salary ranges relatively early in their careers. Such compensation systems help school boards retain excellent teachers. However, the Q&E grant should reward teachers who are most likely to help their students achieve better results. Training programs leading to Additional Qualifications (AQ) should be reviewed and Q&E grants should be administered by a body independent from teacher federations or school boards. Many teachers take AQ courses for duties they have no intention of fulfilling and their absence disrupts classroom continuity. The province should require a minimum number of years of full-time teaching experience before a teacher can try for AQ, and such courses should be more rigorous and evidence-based. Other areas of school staff compensation must strike a better balance between fair conditions of work and fiscal responsibility. For example, the total provincial liability for retirement gratuities is nearly $1.7 billion; the province should remove school boards' power to offer such gratuities.

Delivering Services More Efficiently: The Ministry of Education should be a leader in promoting efficiency and reducing duplication. School board facilities and information technology may offer effective platforms for co-operation with other ministries, especially those supporting children. Boards should also continue to seek out opportunities to foster procurement efficiencies through their expanded buying power. Important steps have already been taken through the Ontario Education Collaborative Marketplace (OECM), a not-for-profit procurement organization. Boards can work together to consolidate back-office functions. The government should work with school boards, teacher federations and support staff unions towards shared ownership and administration of benefit programs. Efficiency can also be found by maximizing the value of school board capital assets. Where schools have been closed or consolidated because of declining enrolment, school boards have surplus properties. The minister should have the power to order the sale of unused properties, especially when such dispositions could meet other needs in the BPS. An increasingly widespread solution to the problem of underutilized schools is the consolidation of Grades 7 through 12 in one secondary school. The province should encourage such consolidations by eliminating top-up funding to underutilized secondary schools if they can instead accommodate Grade 7 and 8 students in their catchment areas.

Containing Costs of Retirement Benefits: The province and Ontario Teachers' Federation co-sponsor the Ontario Teachers' Pension Plan; the province matches members' contributions even though teachers are employed by school boards, not the province directly. In 2005, the plan revealed its first shortfall since 1990, and contributions have increased since 2007. In 2011, the contribution rate was raised and some future indexation benefits reduced. The province should reject further employer rate increases and instead aim to reduce benefits. The province should also consider raising the retirement age; the typical teacher retires at 59, having worked for 26 years, and then collects a pension for 30 years. A higher average retirement age would reduce the need for lower benefits in the future.

Promoting an Efficient Labour Market for Teachers: In the late 1990s, fears of a looming teacher shortage prompted the government and universities to increase teacher education. The province funded more spaces in faculties of education, and new programs were accredited at several Ontario universities, as well as universities in the United States and Australia. Since then, the number of certified teachers in Ontario has increased, but the retirement rate has declined. The number of new teachers now exceeds the number of new retirees by 7,600 a year. The proposal to convert B.Ed. programs to two years from one, with enrolment in each cohort halved, will help to reduce the oversupply. Still, the government should discuss the overproduction of teachers with Ontario's 13 universities offering teacher education.

Post-Secondary Education

Post-secondary education (PSE) must meet five critical objectives: it must educate a growing share of the population; help equalize economic and social outcomes; provide an important component of lifelong learning; be an engine of innovation; and deliver quality education efficiently.

Enrolment is expected to grow by an average of 1.7 per cent per year through 2017–18. Already, such rapid expansion, combined with the lowest funding levels in Canada, has undermined quality — more sessional instructors, larger classes and less contact with professors. Ontario provides the lowest per-student provincial operating grant funding in Canada to its universities and colleges, and it is falling at a time when the cost of continuing to do the same thing has been rising by three to five per cent annually.

Clear objectives are needed. Post-secondary enrolment in universities and colleges has grown dramatically in recent years, but there is no coherent plan that addresses the whole system. Higher enrolment is inevitable when the government's funding formula ties grants to enrolment growth, as it does now. A better formula would encourage PSE institutions to improve quality, with varying mandates — a research focus for some; excellent undergraduate teaching for others; and regional economic development for still others.

We must first address two very topical PSE issues — whether tuition freezes are in students' best interests and the balance between research and teaching excellence.

- The fact that tuition fees are rising faster than inflation is troubling. Tuition revenue should represent a good investment for students, which puts a premium on efficiency, and financial barriers should not impair access. But tuition freezes are not in students' interests. The likely result is further deterioration of the student experience — larger classes and less opportunity to debate and develop critical thinking skills; and
- As federal support for research tripled between 1997 and 2003, universities pursued federal and provincial research dollars, all in the name of becoming "world-class research centres." Few of Ontario's research centres will become the best in Canada, never mind the world. Many, however, have gone so far in this quest as to cross-subsidize research, effectively supporting it with money from undergraduate tuition revenues. Increasingly, universities are letting professors sacrifice teaching commitments to conduct more research. There must be a better balance; excellent research should not trump excellent teaching.

Simply maintaining the status quo requires annual cost increases of three to five per cent at PSE institutions, so greater efficiency is clearly needed. The current system is unsustainable from both a financial and a quality perspective.

The Commission recommends the following:

- Contain government funding and institutional expenses;
- Use differentiation to improve PSE quality and achieve financial sustainability;
- Encourage and reward quality;
- Revise research funding structures;
- Maintain the current overall cap on tuition-fee increases, but simplify the framework;
- Re-evaluate student financial assistance; and
- Generate cost efficiencies by, for example, integrating administrative and back-office functions.

Contain Government Funding and Institutional Expenses: We recommend that government funding be constrained to increases of 1.5 per cent per year to 2017–18. This will not keep pace with projected enrolment growth of 1.7 per cent, nor with the general rate of inflation, never mind the institutions' historical internal rates of inflation, so Ontario's PSE institutions will need to find efficiencies to preserve, if not enhance, quality. The government should work with the institutions to align bargained compensation increases with more recent settlement trends in the BPS.

Increase Differentiation through Establishing Mandate Agreements: Ontario's public university and college system was largely established by the late 1960s. Since then, the colleges' mandate has evolved to include some degree-granting powers, blurring the original rationale for the college system. The government should, by 2012–13, establish mandate agreements with universities and colleges that provide more differentiation and minimize duplication; these should be implemented beginning in 2013–14. By minimizing duplication of programs, differentiation can reduce inefficiencies and realize cost savings. The government should seek advice from either a blue-ribbon panel or the Higher Education Quality Council of Ontario to help choose the highest-quality programs for expansion.

The division of roles between the college and university systems should include the following features:

- After two years of study, college students who meet specific academic achievement criteria should be able to transfer into the university system;
- Colleges should not be granted any new degree programs, but existing programs should be grandfathered;
- The government should approve no new PSE programs until existing programs are rationalized and mandate agreements completed;
- No new professional and specialized programs should be approved without a compelling business case; and
- The Colleges of Applied Arts and Technology should work with the College of Trades to optimize the delivery of apprentice training in non-degree programs.

Encourage and Reward Quality: Students are dissatisfied with large class sizes and inadequate library facilities, among other things. Five specific areas should be addressed:

- **Resources and rewards should be refocused towards teaching:** Post-secondary education institutions should devote more resources to experience-based learning such as internships, allow for more independent study, develop problem-based learning and increase study abroad. Universities should be encouraged to include in their collective agreements flexible provisions with faculty regarding teaching and research workloads. Top-performing teachers and researchers should be recognized with the appropriate workloads and rewards. Eleven Ontario universities already have such flexibility; others should follow. Institutions should redesign incentive systems to reward excellent teachers, as they do now for researchers.

- **Refocus provincial funding to reward teaching excellence:** Provincial funding allocations should be linked to quality objectives, and the funding model should reward degrees awarded rather than just enrolment levels. Government and PSE institutions should work to ensure that the capacity to integrate ideas and create innovative solutions to problems is at the heart of the higher education experience. This will be critical to the economic and social success of Ontario, in an economy where graduates will be working over their career in ways that cannot even be imagined now.

- **Mandate agreements should include certain quality indicators:** Progress has been made in establishing common indicators, such as the use of the credit transfer system, participation rates of under-represented communities, space utilization and class size. Outcome indicators such as student satisfaction, graduation rates and post-graduation employment are also used. However, the underlying measures used to indicate the quality of the learning environment should be enhanced for both universities and colleges. The government should also work with private career colleges to collect and publish the same performance indicators as public colleges and universities. Funding should be tied to indicators of learning outcomes.

- **Revise research funding structures:** The government should evaluate the research funding system of PSE institutions and research hospitals as a whole. The federal government, which to its credit prompted the surge in university-based research, does not cover all associated research costs, so universities cross-subsidize research from other sources. There should also be an analysis of commercialization outcomes of research and development investments, which is very weak. The Commission sees great value in the Early Researcher Awards and Ontario Research Fund — Research Infrastructure program.

- **Maintain current tuition fee increases but simplify the framework:** Keep the five per cent ceiling on overall tuition increases, but let institutions adjust tuition fees for individual programs, within the ceiling.

Re-evaluate Student Financial Assistance: An enhanced system of student loans must accompany the current tuition framework. However, all forms of federal and provincial assistance — student loans, loan remissions, grants and bursaries, tax credits, savings incentives and summer employment subsidies — provide little more for students from the lowest-income families than those from the best-off. They should be better targeted to low-income students. Further, there is ample evidence that family income is not the most serious access problem; the lack of a family history of college or university is the most significant obstacle. Addressing the most acute access issues then becomes very much an issue for the elementary and secondary school system, in conjunction with post-secondary institutions, community organizations and businesses. The province should maintain the Ontario Student Access Guarantee, under which a portion of tuition revenue is set aside to fund bursaries and other student assistance programs. We also suggest that provincial tuition and education tax credits be phased out and replaced with upfront grants. We also make several recommendations to reduce costly defaults under the Ontario Student Assistance Program.

Generate Cost Efficiencies by Integrating Administrative and Back-Office Functions: We make a variety of recommendations that we think could save money for PSE institutions. One involves co-ordinated purchasing. Another deals with pensions. Ontario hospitals, colleges, municipalities and teachers have multiple employers, but only one pension plan each. But there are 29 pension plans for 23 universities, a very fragmented arrangement; they should be consolidated. Other recommendations involve the use of space.

Taken together, these reforms present a holistic approach for the PSE sector. If these measures are not enough to allow the ministry to live within our cap of 1.5 per cent annual growth, the government should eliminate the 30% Off Ontario Tuition grant. The government's highest priority should be to fully fund the operating grants for colleges and universities, followed by current capital commitments. This will allow PSE institutions to focus on delivering quality education, which will benefit students.

Social Programs

Social programs help the province's most vulnerable citizens. From 2000 to 2010, social spending grew by an average of 6.0 per cent per year, mainly because of increases in the two main programs of social assistance — Ontario Disability Support Program (ODSP) and Ontario Works (OW). To return the budget to balance by 2017–18, we recommend limiting social programs to growth of 0.5 per cent per year. Bold policy prescriptions, new partnerships and a continuing commitment to transformation will be needed to meet this challenge.

There are two types of social programs. Two-thirds of social spending in 2010–11 was carried out through mandated and entitlement-based programs, in which benefits or service levels are set by law. These include social assistance and the Ontario Child Benefit. Other programs are discretionary, so clients are not guaranteed to receive them right away. These include support for mental health programs for children and youth, developmental services, child care subsidies and childhood development programs. When caseloads increase for social assistance, an entitlement-based program, so too does funding; clients are entitled to benefits. When demand outstrips supply for discretionary programs, the result is a waiting list.

More programs should be integrated across different ministries and different levels of government, with the client's perspective put first. Vulnerable people and their families do not care which level of government or which ministry is responsible for providing support; they just want help.

Benefit programs are delivered through various service providers under different funding arrangements. Social assistance is delivered by the province, municipalities and First Nations, but mainly funded by the province. And the Ontario Child Benefit (OCB) is funded by the province, but administered by the Canada Revenue Agency. A lack of co-ordination has created gaps, duplication and higher delivery costs, so those in need must navigate a complex array of access points. Program eligibility criteria also vary. Many programs are income-tested; others are universal; still others determine eligibility based on a client's specific needs. This can create unintended inequities and barriers to employment.

There is scope to do better: income testing can be centralized and income verification can be automated; processing applications, eligibility assessment and payment can also be automated; and eligibility criteria can be standardized across similar programs to reduce barriers to employment.

Some positive steps have been taken to simplify access to income-tested programs. The Ontario Benefits Directory now provides one-stop information on over 40 programs and tax credits. Similarly, there is a new single-window access to developmental services and supports. These must be just the beginning.

More effective programs and lower costs can flow from a fully integrated system that improves both delivery and administration; this should ensure strong support for clients most in need. Pursuing such a model means that data collection (with full protection of personal information and privacy) must improve. Measuring client outcomes is needed to evaluate program effectiveness and to understand how programs interact.

Social Assistance: We approached social assistance differently than other programs because the Commission for the Review of Social Assistance (SAR Commission) under Frances Lankin and Munir Sheikh is already studying these programs. The SAR Commission will report later this year, well after our work is done. Yet because social assistance affects the province's finances, we too must propose recommendations. We have focused on applying the themes that run through our report, such as achieving administrative efficiency, rationalizing jurisdictional oversight and shifting from measuring inputs to outcomes. By no means do our recommendations address all aspects of social assistance that warrant reform; on that, we defer to our colleagues on the SAR Commission.

Social assistance consists of the provincially delivered ODSP and the locally delivered OW. Maintaining two separate programs delivered by two levels of government is less efficient than a single program and it perpetuates the antiquated idea that individuals who are eligible for disability supports are unemployable. We urge the SAR Commission to examine alternatives, including a consolidated model of a single, provincially funded social assistance program delivered at the local level.

Employment and Training: Our workforce focus means that the employment and training component of social assistance becomes even more crucial. Chapter 9, Employment and Training Services, highlights recent efforts to integrate these services through Employment Ontario (EO). Further integration of OW and ODSP's employment services with EO would address program overlap and likely produce other benefits — better client service and outcomes and perhaps even lower-cost employment services and reduced demand for social assistance.

Many people with disabilities can and want to work. Yet we are only now beginning to understand how to accommodate people with physical disabilities in the workplace; we are even further away from doing so for those with mental disabilities. The government should work to help employers and employees alike to understand and accommodate the specific needs of these individuals in the workplace.

Among those with severe disabilities, many are unemployable; they would be better served by a national basic income program instead of social assistance. The province should advocate for such a program with the federal government and other provinces.

The federal Employment Insurance (EI) program does not meet the needs of the modern labour market. Unemployed Ontarians do not receive equitable income support and appropriate training opportunities to help them return to the workforce. Also, the increasing proportion of people who are either new workers (often new immigrants) or young people in non-standard employment (such as part-time or temporary employment) do not quality for EI. The recommendations of the Mowat Centre EI Task Force, if implemented, would be a considerable improvement.

Should social spending growth fall below the 0.5 per cent target, any savings should be used to remove barriers to moving back to the workplace. Three areas command attention. First, potential social assistance recipients must divest all liquid assets above a threshold — $1,645 for a single parent of one child receiving OW. This deprives social assistance recipients of the most basic means of climbing the "welfare wall" and is counterproductive. Second, anyone getting social assistance is covered by the ODB program, but loses coverage on finding a job. This is a strong disincentive to work. Third, in the unlikely event that funds do remain after doing the first two, the basic needs and shelter amounts of social assistance should be raised to fill any gap.

Child Welfare: In this case, as with social assistance, we deferred to the ongoing work of another commission, the Commission to Promote Sustainable Child Welfare, now two years into its three-year mandate. Its reports to date are consistent with our themes, but dealing with our 0.5 per cent growth cap per year will nonetheless be difficult. The government should continue to implement reforms proposed by the Commission to Promote Sustainable Child Welfare.

Ontario Child Benefit: The OCB provides up to $1,100 annually per child; about one million children in almost 530,000 families benefit from it. The OCB is a non-taxable, income-tested monthly benefit. The OCB has transformed children's benefits by providing support to all low- to moderate-income families with children under 18, making it easier for parents to move from social assistance to employment. This is commendable in terms of helping to remove the "welfare wall," but we note that the *2011 Ontario Budget* committed the government to raising the maximum OCB to $1,310, at a cost of $245 million per year. This runs counter to our recommendation that any savings from reducing spending below the 0.5 per cent growth rate, if achieved, should be directed to specific social assistance measures; the current OCB maximum should be retained.

Other Social Programs: Discretionary social programs are overseen by many ministries and BPS partners with varying levels of capacity. There are common trends: the province funds most services; the province has recently taken on more funding responsibility from municipalities (e.g., social assistance) and the federal government (e.g., stepping in when child care funding was cancelled); co-operation across sectors is improving, but much more needs to be done; and wait-lists still exist for most services in most programs. Since the province provides most of the funding, it must lead change in these programs.

Children's Mental Health Services: The legislature's Select Committee on Mental Health and Addictions has noted that services are delivered across several ministries and offered in many care settings. The government has taken steps to reduce this fragmentation. It should further integrate child and youth mental health services.

Children's Services Integration: Greater integration of services for children and youth should be expanded beyond mental health. As with the alignment of other services, co-operation across ministries and with other levels of government (particularly at the municipal level) will be key.

Developmental Services: Recent legislation recognizes both that individuals with a developmental disability can, with appropriate supports, live independently and that they and their families want more choice and flexibility in choosing those supports. Shifting funding to clients could promote a more competitive approach to providing supports based on individual demand. The government should consolidate its funding for community-based support programs into a single direct funding program.

Youth Justice: Where excess capacity in youth justice facilities can be demonstrated and a more efficient option exists, strategic closures should occur.

Contributions of the Non-Profit Sector: The non-profit sector accounts for 2.5 per cent of GDP, employs 600,000 people and has over five million volunteers. Most Ontario non-profit organizations are run entirely by volunteers. These organizations should continue to get funding, but the system should be more flexible and work to reduce administrative costs by measuring outcomes rather than inputs. The government should also become more responsive to the non-profit sector; a single window through which non-profits could engage all government ministries would help.

Social Impact Bonds (SIBs): The government should use pilot projects to assess the usefulness of SIBs, which help reduce fiscal pressures on government. While SIBs have challenges, they also offer opportunities for better and more cost-effective social outcomes.

Employment and Training Services

Employment and training programs can be an important tool to help equip workers with the skills they need for the available jobs. Some groups in particular struggle in the job market — youth, recent immigrants, Aboriginals, laid-off older workers, single mothers with young children and persons with disabilities. Existing programs need significant improvement to maximize the participation of all working-age Ontarians.

Ontario offers a range of employment and training services. The Ministry of Training, Colleges and Universities (MTCU) administers most of these through EO, which serves employers, laid-off workers, apprentices, older workers, newcomers and youth. The Ministry of Community and Social Services (MCSS) supports social assistance clients through the ODSP and OW. The Ministry of Citizenship and Immigration (MCI) offers employment programs to immigrants. There is also indirect support for training through tax credits.

With so many services provided by so many ministries, clear opportunities exist to improve efficiency and quality. The new Employment Service (ES), a “one-stop shop” offering a full range of employment support services, is a step in this direction. The EO should further streamline its services for clients who need little intervention, so it can focus on the more intensive interventions needed by others. Other ministries also offer employment and training services that should be integrated with EO.

The federal government provides significant annual funding to Ontario through federal-provincial labour-market agreements, each with its own requirements for client eligibility, program design, reporting and accountability. The patchwork of such agreements leads to fragmented and distorted policy-making. There are also federally funded and delivered employment and training programs for youth, persons with disabilities and Aboriginals that are not part of existing bilateral agreements. This creates administrative inefficiencies and confusion for potential clients. Since many of these agreements are about to expire, the opportunity is ripe for a single new arrangement that should devolve all remaining training responsibility, specifically for youth and persons with disabilities, to the province. This would provide Ontario with sufficient flexibility to fully integrate these services under the EO banner, respond to its fluid labour-market needs and innovate using small-scale pilot projects.

Despite the many programs, there is no coherent strategy based on clear targets and performance measures linked to outcomes. Labour-market information needs improvement. Rather than just count the clients it serves, the government should track outcomes — did clients get jobs, and for how long and at what wages? Also, the province needs better data so it can better target labour-market programs.

In 1994, 25 Workforce Planning Boards were established to improve labour-market conditions at the community level, but control remained at the MTCU head office. Their oversight is now being transferred to regional offices — a positive first step that will promote stronger local links. The boards should encourage employers in their regions to invest more in workplace-based training, an area in which most now fall short compared to international competitors.

Various ministries run economic development programs that include a training component. These programs largely function separately from EO, which renders them less effective. Stronger links are needed, especially for such initiatives as the Ring of Fire.

Ontario’s apprenticeship system offers programs for more than 150 trades and occupations. In 2010, Ontario established the College of Trades to modernize the apprenticeship and skilled trades system. The government should shift responsibility for all apprenticeship administration to other players in the sector. Functions related to the administration of apprenticeship classroom training should be given to colleges and union training centres. All other administrative responsibilities for apprenticeships should be transferred to the College of Trades.

Immigration

Because Ontario’s population is aging and fertility rates are low, immigrants account for a rising proportion of population growth; within this decade, all net growth in the working-age population will come from immigration. This matters because successful immigrants can contribute substantially towards strong labour-force growth, which in turn enhances Ontario’s potential economic growth rate. If immigrants cannot use their skills and education, however, their contribution to the economy cannot be fully tapped. This is happening; economic outcomes for recent immigrants have deteriorated over the past two decades.

Any profile of immigrants to Ontario presents negatives and positives. Recent immigrants have fared less well than earlier cohorts in the labour market. Immigrants are better educated than people born in Canada, but recent immigrants’ earnings are well below those of Canadian-born citizens and the earnings gap has been growing. Recent immigrants are also more likely to live in poverty. The number of visible minority immigrants in Ontario is growing and they are more likely to live in poverty for longer than one year.

A key problem for policy is that many of the critical levers of immigration lie with the federal government, whose recent policies have worked to Ontario’s disadvantage. It is true that faster economic growth in other provinces has played a role in luring more immigrants to other parts of Canada, but changes to federal immigration policy have also reduced the number of Economic Class immigrants, especially those in the Federal Skilled Worker (FSW) group. Historically, Ontario has relied on such highly educated immigrants with solid language skills, who tend to be the most successful, but federal policy has encouraged a shift in Ontario’s mix towards a higher proportion of Family Class and Refugee immigrants.

It is vital that the provincial government develop — and present to the federal government — a stronger position based on the province’s best economic and social interests, which would include a greater provincial say in immigrant selection. Ontario should persist in its efforts to increase the number of FSW immigrants, as their earnings grow faster than those entering under the Provincial Nominee Program (PNP). Barring progress on this front, Ontario should advocate for expansion of its PNP.

Refugees require special attention. They experience much higher rates of unemployment, part-time employment and temporary employment than do people born here. Refugees and refugee claimants have complex needs and many need social assistance, a sizable cost for society and the provincial treasury. Ontario should press the federal government to compensate the province for these costs.

Over the past decade, the Ontario government has made significant investments in programs and services across Ontario to help newcomers settle, get language training, and become job-ready and licensed in their field. These should be integrated with complementary services already offered through EO, and carried out carefully, to ensure no drop in service quality during the transition.

The first federal–Ontario immigration agreement in 2005 provided new funds to help newcomers settle and improve their language skills. But the federal government has not kept its commitment to spend all the funding allocated to Ontario; to date, the federal government has underspent its commitment by over $220 million. Ontario should push for greater policy control and full funding support for immigrant settlement and integration through the next Canada–Ontario Immigration Agreement. Ontario should build a business case for devolving federal immigrant settlement and training programs to the province with an appropriate funding mechanism, similar to those established in British Columbia, Manitoba and Quebec.

Business Supports

The government should rethink and reset its business support programs. At a time when the economy faces significant challenges, Ontario has two critically important assets that support economic growth: one of the most highly skilled workforces in the world and an internationally competitive tax regime. Recent tax reforms alone have saved business more than $8 billion in annual taxes.

Ontario has myriad programs to support business investment. In the latest year, the government spent just over $1.3 billion directly to help businesses through 44 programs across nine ministries and provided another $2.3 billion of indirect support through tax expenditures, including tax credits that were introduced when corporate income tax (CIT) rates were high, but retained even after CIT rates fell significantly. Empirical evidence suggests that business subsidies have done little to raise living standards and can distort business decisions to the point where they are no longer based on sound economic criteria or require a reasonable degree of private risk.

Ontario's hodgepodge of direct and indirect programs is fragmented and lacks clear and coherent objectives. As data on outcomes are often poor and inconsistent, it is unclear whether the programs are achieving any economic benefits for Ontario. If we were to design business support programs from scratch, they would not look like what we have now. We can either restructure the existing programs or start over. The second option is the better way forward.

A new business support framework should be built on five policy pillars:

- **A refocused mandate:** The focus of business support programs should shift from job creation to productivity growth.
- **Consolidated funding:** Ministries should manage a pooled envelope of direct and indirect business support, financed by ending all direct business support programs by Mar. 31, 2013. We believe the current level of direct business support could be reduced by at least one-third.
- **Revised tax expenditures:** Tax expenditures — such as refundable and non-refundable corporate income tax credits and tax deductions or exemptions — are a form of spending through the tax system. The government should sunset all refundable tax credits as of Mar. 31, 2013, and then revive the useful ones through the single envelope for business support programs. The Ontario Small Business Deduction (SBD) should be limited to small businesses, as is the practice federally and in all other provinces.
- **Integrated delivery:** A more user-friendly “one-window” portal would make it easier for firms, communities and individuals to access information about all provincial economic development programs, policies and services.
- **Strengthened accountability and transparency:** Business support programs must be subject to rigorous evaluation that links public expenditures to new, incremental activities by business. A four-year sunset rule should be applied to all future business support programs, and programs should be extended only if they have demonstrated their worth. Greater transparency is also essential. A simple inventory of direct business support programs seemed to be difficult for the Ontario Public Service (OPS) to produce.

Such changes should result in stronger, more productive firms producing higher-value products and services, while creating more higher-paying, skilled jobs for Ontarians.

Infrastructure, Real Estate and Electricity

Public infrastructure, while costly, creates assets that can improve productivity (through schools, for example) and either create returns (through greater tax revenue) or offset future costs (such as traffic congestion). A recent study suggests that every dollar invested in Ontario’s public infrastructure generates $1.11 in economic output. Ontario’s fiscal problems mean that it will become harder to finance new infrastructure investment, so a civilized dialogue on alternative methods to finance infrastructure is needed.

More should be done to keep infrastructure in good condition. The equivalent of about half of the $72 billion of municipally owned water and wastewater infrastructure needs renewal. Full-cost pricing would encourage both stable investment — which is more efficient and fairer on an intergenerational basis — and conservation.

Urban transportation is a particular concern. Over the next 25 years, the Greater Toronto and Hamilton Area (GTHA) is expected to grow from six million people to nine million, equivalent to adding the population of Greater Montreal to the GTHA. Much of the region's public infrastructure is nearing full capacity and gridlock is already a problem. Public transit, surely part of any solution, will be costly. There has been little discussion of either the action needed to meet this challenge or the consequences of failing to act. We cannot review long-term public transit funding, but there are more immediate opportunities; for example, GO Transit should charge patrons for parking, which is more costly than many realize.

We need honest discussions on other revenue solutions. The province should pursue a national transit strategy with the federal government, other provinces and municipalities. General tax revenues will surely be part of any revenue solution — whether federal or provincial — but there are alternatives such as congestion charges, comprehensive road tolls, high-occupancy/toll (HOT) lanes, regional gas taxes and parking surcharges.

Real Estate Is Another Issue: The government of Ontario is the largest owner of realty in the province, with a portfolio worth about $14 billion, much of it in office buildings, jails, courts and hospitals. Most buildings are old and expensive to maintain. Yet ministries are charged less than market rates for their use of government buildings; they would probably use less space if they had to pay market prices, as they should. The government should also consolidate its real estate and accommodation functions in the Ministry of Infrastructure. In reducing its realty footprint the government will increase its potential to monetize its real estate portfolio; it should develop a strategic plan to do so.

The performance of Ontario's electricity sector has considerable implications for the province. The government owns Ontario Power Generation (OPG) and Hydro One; its programs include the Ontario Clean Energy Benefit (OCEB); electricity prices influence industrial competitiveness; the feed-in tariff (FIT) policy is designed to attract investment; and electricity policies directly affect the environment. Significant private-sector investment has been driven by Ontario Power Authority (OPA) contracts, necessary because wholesale electricity prices were too low to cover the private generators' costs. In addition, the government's job-creation and environmental policy objectives have resulted in the replacement of coal-fired generation with cleaner power sources, domestic-content requirements under the FIT program, and increased conservation efforts. These policies, along with the cost of replacing and maintaining aging infrastructure, have raised electricity rates for consumers.

There are several areas in which the electricity sector and Ontario's fiscal position interact.

Direct Program and Tax Expenditures: The OCEB provides a 10 per cent rebate on electricity bills for residential, farm and small business customers, even though the government acknowledges that electricity prices will continue to rise. This program distorts the true cost of electricity and discourages conservation. As troubling as this is, the Commission foresees that the scheduled demise of this generous incentive in 2015 will create a large price shock for ratepayers. We worry that an extension of the OCEB would risk Ontario's ability to return to a balanced budget in 2017–18. Also, removal of the Debt Retirement Charge (DRC) may be delayed until 2018. Ending the DRC and the offsetting OCEB at the same time would provide a "soft landing" for ratepayers, but this would evaporate if such a delay occurred. Finally, because the Commission strongly believes the OCEB's $1.1 billion could be used more effectively, the OCEB should be eliminated as quickly as possible. All other electricity subsidies should be reviewed as well.

Electricity Stranded Debt: When the electricity system was restructured in 1999, only part of Ontario Hydro's debt was supported by the assets of its successor companies. The result was $20.9 billion in stranded debt. The Ontario Electricity Financial Corporation (OEFC) was set up to manage this debt and certain revenue streams were dedicated to pay it down. Also, the DRC levied on consumers was part of this solution. The fiscal impact of the OEFC revenue streams is significant; OEFC revenues, expenses and debt are part of the province's budget. The financial performance of OPG and Hydro One matters because their payments in lieu of taxes and some of their combined net income go to service the OEFC debt. It is imperative that OPG and Hydro One be run efficiently to maximize their contribution to deal with this legacy of the old Ontario Hydro.

Options to Reduce Long-Term Electricity Costs: This report's principles, set out in Chapter 3, Our Mandate and Approach, can be transferred to the electricity rate base. In the face of electricity prices that are projected to rise by 46 per cent between 2010 and 2015, the province should seek efficiencies in the sector that would help slow electricity rate increases. At the same time, the Commission recognizes that after so much change since 1999, a period of normalcy may be helpful. Consequently, the Commission's recommendations are meant to balance the need for stability with the need to curb costs. The government should produce a detailed, 20-year blueprint for the energy sector. It should also consolidate Ontario's 80 Local Distribution Companies (LDCs) along regional lines to create economies of scale; this would result in direct savings on the delivery portion of the electricity bill. Further, the government should mitigate the impact of the FIT program on electricity prices, first by reducing the initial prices offered in FIT contracts and reducing the tariff over time, and second by making better use of "off-ramps" built into existing contracts. Among other measures, the government should seek administrative efficiencies in various electricity sector agencies and restructure the wholesale electricity market so consumers located closer to generation stations can benefit from lower electricity prices.

Environment and Natural Resources

Responsibility for protecting the province's environmental and natural heritage falls to the Ministries of the Environment (MOE) and of Natural Resources (MNR). At a time when fiscal restraint will further restrict their supply of funds, it seems certain that demand for oversight of environmental approvals, compliance and natural resource stewardship will rise.
Our recommendations are aimed at more effective and efficient operations.

Full Cost Recovery and User Pay: Full cost recovery is not in effect for all of the government's environmental programs, and existing fees do not keep pace with the rising costs of program delivery; where possible, the costs of those services should be shifted to the beneficiary. The Water Charges initiative should be expanded beyond high users to medium- and low-consumption industries and put on a full user-pay basis. The Renewable Energy Approval, which consolidates the range of approvals needed for renewable energy projects while recovering about 90 per cent of its direct operating costs, is a good example of a modern approval. The Drive Clean program fully recovers its costs.

Jurisdictional Crowding: Federal, provincial and municipal governments all set environmental rules, with some overlap. Even within the Ontario government, regulations are set by several ministries. This results in inefficient use of government resources and creates uncertainty and confusion for industry, developers and citizens. The government should work to rationalize roles and responsibilities that are shared by different governments.

The Approvals Process: Growth in natural resource extraction and energy will put pressure on provincial environmental approvals and compliance systems. The MOE recently launched a significant transformation of the environmental approvals process; it enhances environmental protection with a greater focus on risk, responds to the needs of business, takes advantage of current technology and addresses the increasing complexity of current approvals. Further work should be done, especially in natural resource extraction.

The Environmental Assessment (EA) Process: Many projects require both provincial and federal EA requirements. The 2004 Canada–Ontario Agreement on Environmental Assessment Co-operation is under review, but removing duplication may require new legislation and both governments are reluctant to give up decision-making authority. Some projects need environmental and land use approvals in addition to an EA, though proponents are often unaware of this when an EA process begins. The government should further streamline the process.

Prevention and Polluter Pay: The Environmental Protection Act gives the province the "right to compensation" for loss or damage incurred as a direct result of a spill, and for all reasonable costs and expenses incurred for a cleanup. This is a problem when the owner of a contaminated site cannot be found or cannot pay for the cleanup. The province should put more emphasis on prevention and should use the principle of "polluter pay" for contaminated sites; the use of appropriate financial tools, such as financial assurance, should be part of this.

Ontario Clean Water Agency (OCWA): The OCWA, which operates drinking water and wastewater systems for over 170 clients, is the only agency that competes in the marketplace for its business and receives no funding from government. Its current business model is not sustainable or competitive. It cannot offer its skilled operators appropriate compensation, so many are leaving. And it cannot act quickly enough to pursue lucrative business opportunities. It would work better as a for-profit, wholly owned government entity.

Land Use Planning and Resource Management: The many agencies doing this work in southern Ontario should be rationalized and consolidated.

Ring of Fire: This development of major mineral deposits in northern Ontario offers the prospect of substantial socio-economic opportunities for all northern residents, particularly Aboriginal Peoples. The government should collaborate with Aboriginals, industry and the federal government to maximize these opportunities.

Justice

The government's justice ministries — the Attorney General (MAG) and Community Safety and Correctional Services (MCSCS) — provide policing, correctional services, legal aid funding, administration of the court systems and victim services. Three levels of government are involved in the entire justice system: the federal government has jurisdiction over criminal law; the province runs the courts and police services; and municipalities handle municipal policing and prosecutions under the Provincial Offences Act. This means changes by one government often drive program changes and costs for other governments.

The justice sector faces numerous fiscal challenges:

- Compensation costs account for about 70 per cent of spending. The current contract for the Ontario Provincial Police features a wage freeze in 2012 and 2013, and an 8.5 per cent increase in 2014; the correctional officers' current collective agreement expires at the end of 2012;
- Costs are rising for custody remand — people held in custody while awaiting trial. There are now twice as many people on remand as there are sentenced offenders;

- Aging infrastructure is deteriorating; 117 courthouses and facilities need renewal or replacement;
- The federal government's omnibus crime bill provides for tougher sentences and mandatory jail time. This will cost Ontario at least $22 million per year, probably much more; and
- The public expects more of the justice system than it previously did. Investigations into organized crime, gangs and Internet crime are increasingly complex and require significant resources. The family court workload has also become heavier as a result of increased child protection initiatives. Moreover, catastrophic events such as the 9–11 terrorist attacks in 2001 have generated greater public focus on emergency management.

The justice sector will need to transform its service delivery and find efficiencies while ensuring public confidence. Our recommendations are designed to help.

Evidence-based decision-making is a persistent theme of the Commission. The justice sector should improve its collection of data to evaluate whether policies and programs are meeting their intended objectives, and how efficiently. The Justice on Target (JOT) program is an example of how to use data to achieve better outcomes. Our full report identifies a number of areas in which better data collection would assist the evaluation and analysis of policy.

Custody remand in Ontario is increasing and so are the costs. The two ministries should work to reverse this trend. The JOT program, which has begun to reduce the time needed to complete a criminal case, can also reduce the number of inmates on remand.

Family breakdown often results in multiple civil legal problems for low-income people; this puts greater demands on both the justice system and social welfare services such as housing, legal aid, social assistance, and physical and mental health programs. The MAG should use JOT principles to develop an early intervention program that would divert less contentious family disputes to non-court alternatives such as mediation. The government should also expand diversion programs for low-risk, non-violent offenders with mental illness rather than send them to jail.

Policing is one of the fastest-growing areas of public expenditures in Canada. After reviewing and defining the core responsibilities for policing, which would include an examination of alternative models of service delivery, the government should eliminate the use of police officers for non-core policing duties, replacing them with special constables or private security services. Similar measures could reduce costs in correctional facilities. Examples of non-core services include inmate transportation and community escorts; inmate health care, food services and laundry services.

In 2010, the government strengthened efficiency and oversight by creating two new agency clusters of adjudicative tribunals — Environment and Land Tribunals Ontario (which includes the Assessment Review Board, Ontario Municipal Board and Environmental Review Board) and Social Justice Tribunals Ontario (which includes the Landlord and Tenant Board, Human Rights Tribunal of Ontario and Social Benefits Tribunal). Tribunals within each cluster share common administrative functions, so each can focus on case management. Environment and Land Tribunals Ontario now occupies a single building, where hearing and mediation rooms can be shared. Procedural improvements are expected as these cluster organizations evolve. Other ministries should follow this example; clustering has the potential to achieve cost efficiencies in health, community and consumer safety, agriculture, commerce and labour adjudicative tribunals.

The government should also examine opportunities to consolidate training in policing, fire services and correctional services; these are now delivered individually through their respective colleges.

To deal with aging infrastructure, the justice sector should continue to work with Infrastructure Ontario to use alternative financing and procurement for capital projects. Completed projects should be evaluated to learn if they did indeed deliver value for money as intended.

More federal-provincial co-ordination would be desirable in areas such as policy and legislation, law enforcement and correctional services. Special attention should be paid to the impact of federal legislation. Accommodating recent federal crime legislation will place further demands on Ontario’s court and corrections systems, adding to the province’s fiscal burden since the federal government has not yet addressed the cost issue. Ontario’s prisons are now filled to 95 per cent of capacity; the new federal legislation could raise this to over 100 per cent, with rates as high as 150 per cent in some institutions. In the worst-case scenario, the province would need a new 1,000-bed facility, costing $900 million to build and $60 million per year to run.

Currently, offenders sentenced to less than two years go to provincial prisons while offenders sentenced to two years or more serve in federal penitentiaries. Since effective rehabilitation programs can be provided for inmates serving longer than six months, we recommend uploading to the federal government the responsibility for inmates serving six months and more. This would better align fiscal incentives for corrections and would give inmates access to federal rehabilitation services.

Labour Relations and Compensation

There are over one million BPS employees in Ontario, about 70 per cent of whom are unionized, compared with about 15 per cent in the private sector. This makes effective union-management relationships important. Any government wanting to change the delivery of services must work with the people who deliver those services and with the unions that represent those people.

Labour costs account for about half of all Ontario government program spending. As such, the target of 0.8 per cent program spending growth cannot be attained without moderation in the growth of public-sector total compensation, whether through base wages; premium payments such as overtime, shift premiums, merit pay or movement through “grids”; or pension costs.

Public-sector wage growth has moderated since the government introduced a restraint policy in March 2010. However, many major agreements, including those covering Ontario’s almost 25,000 physicians and over 200,000 teachers, have not been renegotiated since then.

Labour compensation is but one consideration of labour relations. Ultimately, the goal is to have a highly competent public service working at a high level of productivity, delivering excellent public services. Tactics geared towards short-term fiscal gains such as wage freezes and limits on the number of civil servants should be avoided. Wage freezes damage labour relations and are often followed by wage catch-ups. A focus on program outcomes and budgets will naturally and more efficiently result in a smaller civil service than arbitrary rules. There should be no ideological or other bias towards or away from public- or private-sector delivery of services, only a consideration of practical logic: what produces the best result for the people of Ontario at an affordable cost?

The principles below are intended to support the transformation in labour relations that will best allow management and labour to work together to deliver excellent public services.

- The labour relations system in Ontario should be balanced, effective and transparent. It should respect the interests of both employers and employees, provide value to citizens and be seen to do both;
- Collective bargaining agreements that are negotiated between the parties are preferred to settlements or outcomes that are either legislated or arbitrated;

- Accountability for labour relations and service delivery should be appropriately distributed. Governments, BPS employers and bargaining agents should bear responsibility for bargaining outcomes. All BPS management and employees should bear responsibility for delivering high-quality public services and value for public money; and
- Broader system changes should be part of a larger vision, in which labour relations plays a part, but is not an end in and of itself.

These principles should be applied to a number of key issues that recur in labour-management relations in the public sector.

The goal of balance means the government should settle the issue of essential services and change the interest arbitration system. An independent working group should determine which services are essential and how disputes should be resolved. The interest arbitration system has come under increasing scrutiny and attack. We do not find the system to be broken, though it can be improved. Arbitrators are likely to follow the lead of public-sector employers adopting tough, but fair, stances in negotiations. Among changes that would help: an independent tribunal or commission should manage a panel or roster of independent arbitrators, set time limits for each arbitration and require arbitrators to provide clear reasons for their decisions.

Ensuring that public services are delivered more effectively and efficiently is primarily a management problem. Most BPS workers are well educated, highly competent and dedicated, but the system does not measure productivity well, nor does it encourage active steps to improve it. This can and must change. The government should provide a zero budget increase for wage costs; ministries and agencies will then have to drive out inefficiencies to absorb any wage increase. Bumping provisions unduly impede the move towards a progressive and efficient public service; these should be modified. Concerns about successor rights should not stop privatizations or amalgamations; inherited agreements do not live forever. The Ontario Labour Relations Board should be given expanded authority to encourage bargaining structures that support the delivery of quality and effective public services. The government should also encourage further rationalization of BPS bargaining. The province should move to a smaller number of bargaining units and more centralized bargaining. The government should set up a labour relations information bureau to collect data relevant to employers and unions, especially measures of productivity.

Leaders in the OPS and BPS should be held to account, adequately compensated and offered incentives to excel. The Ontario government needs highly competent employees, including managers. Those who exceed their job requirements should receive bonuses. To help managers, job descriptions and collective agreements should be flexible enough to put the best people in the right places. The government needs greater flexibility both to move people around and to address underperforming individuals and areas that are no longer priorities or where the service could be better provided by another entity.

Many public-sector workers have recently agreed to, or had imposed on them, more moderate compensation increases. Large employee groups in health and education that are now entering into bargaining rounds should do their part. The government must work collaboratively with BPS employers and bargaining agents to reach compromises that recognize the fiscal reality. Employers may have to take and maintain hard positions in the face of disagreement and disruption, but all parties should share a focus on results.

The government and its BPS partners must realize that moderation in compensation will be difficult to maintain over the long term. A broad vision for labour relations must recognize this and plan for the future. Transformation and productivity gains will ultimately allow the government to provide sustainable services.

Operating and Back-Office Expenditures

The government's operating and back-office expenditures include employee compensation, IT, human resource management, financial services, procurement, communications and other services. In many cases, these can be made more efficient without compromising service delivery — in most cases, these changes will improve it. Many such reforms should be extended to the BPS — schools, hospitals, agencies, boards and commissions.

The mandate of ServiceOntario should be expanded. ServiceOntario is the province's public-facing delivery organization with responsibility to deliver information and high-volume routine transactions to individuals and businesses. A broader mandate for ServiceOntario would reduce costs, increase productivity and improve service delivery to the public. The one-stop approach — which can work across the Ontario government and in conjunction with the federal and municipal governments — is better for clients and government alike. It should further expand its service-delivery methods to new or alternate platforms, all the way to partnerships with the private sector. ServiceOntario's capital budget is now $2 million per year, which limits its ability to secure efficiency gains; to carry out a broader mandate, it will need more money, especially for updated IT.

Private-sector partnerships should be used to move ServiceOntario further towards a full-cost recovery model. Such partnerships can provide better value for taxpayer money, as long as they meet the standards expected of public service delivery; Teranet is an example of a public-private partnership that works.

“Agencies” is the generic term for a wide variety of entities to which the government makes at least one appointment. They have diverse and complex mandates and perform a variety of roles. The agencies’ governance framework and accountability mechanisms were reviewed in 2010. But a broader review is needed to determine if their mandates continue to be relevant and if efficiencies could be achieved.

Delegated Administrative Authorities (DAA) have delivered regulatory services since the mid-1990s; DAAs are private, not-for-profit corporations that administer legislation on behalf of the government under accountability and governance agreements with the government. Delegated Administrative Authorities have been found to reduce costs to taxpayers, improve regulatory outcomes and efficiency, retain government oversight and increase industry engagement. At a time of fiscal restraint, there is a risk of service erosion as regulatory ministries seek to reduce costs. The government should set up more DAAs.

In the late 1990s, the government combined a hodgepodge of information and information technology (I&IT) solutions into clusters. I&IT is the technological backbone of government operations. Further efficiency and better value for money will be found by eliminating redundant services and centralizing common functions. The government now uses both in-house and external service delivery; in a constrained fiscal environment, outsourced contracts may make the difference between the continuation and the end of some services.

Accountability is essential, but we often treat that goal as an absolute good. Taxpayers expect excellent management and transparent procurement, but an exclusive focus on rigorous financial reporting and compliance requires a significant investment of time, energy and resources that is subject to diminishing returns. The added cost to government, to the general public, and to the private and non-profit sectors in ensuring compliance should be balanced against the risk of waste or fraud. The Auditor General should be asked to help find a new and appropriate balance. At a minimum, the government should switch from individually tracked expenses to a per diem system for civil servants and consultants.

In a number of areas, efficiencies already introduced in the OPS should be extended to the BPS. Among these:

- Shared services for back-office functions (e.g., payroll, financial transactions, procurement, collections and insurance) and common administrative services (e.g., printing, mail, translations and asset management) can save money;
- The consolidation of I&IT services in the OPS saved $100 million per year; savings would be greater if this were pushed out to the BPS;
- A standardized framework would enable the BPS to leverage its immense purchasing power through collaborative purchasing, standardization of products and processes, and back-office consolidation; and
- Centralized maintenance practices already established in the OPS should be extended to the BPS.

Transfer payment and grant programs in the OPS are ripe to deliver centralized efficiencies. Because many organizations are funded by several ministries, the government has trouble assessing the overall picture and recipient organizations are frustrated at dealing with multiple requirements. A new enterprise grants management system, developed by two ministries to overcome these problems, is set to launch shortly; expanding it to the entire OPS would spread its costs across more ministries.

Government Business Enterprises

The government of Ontario owns four government business enterprises (GBEs): the Liquor Control Board of Ontario (LCBO), Ontario Lottery and Gaming Corporation (OLG), Ontario Power Generation (OPG) and Hydro One. They contribute substantial sums to the provincial treasury — $4.6 billion in 2010–11 alone. Together, their net assets amounted to $17.6 billion at the end of last fiscal year.

We looked at two distinct approaches to generating further value from them: the government could sell all or part of each business; or it could improve business efficiencies while retaining full government ownership.

Sales of GBEs: Because these assets contribute substantial ongoing and growing revenues to the province, a full divestiture of any or all of the GBEs would result in a lump-sum payment to the province at the expense of future revenue streams. If sale proceeds were directed to pay down provincial debt, Ontario could save on interest costs of up to four per cent, based on recent bond yields. By comparison, GBEs provide a return on assets (ROA) of at least eight per cent. Any full divestiture would have to overcome this spread to provide a fiscal benefit to Ontario. Current circumstances do not appear to offer a convincing value proposition for the province. Even so, Ontario should not close the door on new approaches that generate better value out of the GBEs. Action, however, must not be driven by ideology. Any sale must rest on overwhelming evidence that Ontario would benefit in the long run.

Improving GBE Operations: The GBEs may not be achieving their full potential because of operational inefficiencies and because they are sometimes ordered to act counter to their direct commercial interest.

There may be opportunities to improve LCBO returns through increased efficiencies and new business opportunities. The Auditor General noted in his 2011 Annual Report that the LCBO could more effectively use its purchasing power and improve the current mark-up structure used to determine retail prices. The LCBO also has obligations that reduce profitability, such as promoting Ontario producers. The policy merits of these measures should be balanced against any reduced profitability. The LCBO may also be able to increase profits by opening more stores.

The OLG provides significant net income to the province while maintaining social responsibility, but efficiencies and other measures could improve the company's margins. The OLG currently operates two head offices in separate locations; it should close one. It operates two casinos in the Niagara area; it should close one. Slot machines are directed to racetracks, where subsidies are provided to the horse racing and breeding industry and municipalities, rather than locations that would be more convenient and profitable; OLG would make much more money if slots were permitted elsewhere, as they should be. The OLG gives lottery terminals to merchants who sell tickets, an implicit subsidy. This practice too should cease.

The OPG and Hydro One occasionally endure government intervention that lacks a clear and legitimate policy objective, to the potential fiscal detriment of the province. They should both be encouraged to seek operational efficiencies in line with their industry's best practices. In an effort to reduce costs to consumers, the government occasionally intervenes in regulatory rate filings for both OPG and Hydro One. As a result, electricity rates may become decoupled from costs, providing a de facto subsidy to electricity consumers, and reducing both companies' net income and their contribution to provincial revenues.

Revenue Integrity

Across a range of revenue issues, better administration and enforcement could improve the integrity of the tax system and build Ontario's fiscal capacity.

The business tax base needs strengthening. Globalization has offered companies more opportunities to reduce the provincial corporate income tax they pay. Ontario should work closely with the federal government and other provinces to reduce aggressive tax avoidance. Such steps could generate over $200 million per year in revenue.

The underground economy creates an unfair tax burden for taxpayers and makes it hard for legitimate businesses to stay competitive with those that evade many business taxes. More should be done. Quebec has made progress through tougher penalties for non-compliance, intensified tax audits and a tighter focus on high-risk industries and products, along with other initiatives. Ontario should take similar steps and work with the federal government to co-ordinate and strengthen compliance. These and other measures could yield the province over $500 million per year.

Fines valued at $1 billion under the Provincial Offences Act (POA) remain uncollected. The province should take more aggressive action to collect this money; for example, it could suspend licences and registrations, add POA fines to the offender's property tax bill and offset tax refunds against unpaid POA fines.

The Auditor General has highlighted the government's collections activities for accounts receivable and overdue accounts. The *2011 Budget* proposed a more centralized system to be lodged in the Ministry of Finance that would reduce costs, improve the monitoring of overdue accounts and reduce accounts receivable. Other jurisdictions have already moved in this direction. Early estimates indicate that this would eventually generate over $250 million per year.

The Ministry of Finance has developed a sophisticated, automated audit assessment tool to identify areas of greatest financial risk, which helps auditors and inspectors determine where they should focus their attention. By co-ordinating government-wide audits of companies, a valuable resource for ministries, the Ministry of Finance will be better able to recover funds on behalf of the province. The revenue potential here is over $50 million annually.

The government receives about $1.8 billion every year from over 400 types of user fees (e.g., driver's licences). Most are set at a specific rate, but there is no regular process for reviewing these fees so, over time, they do not reflect the rising costs of providing the related service. Many of these have seen little change since 2003. The government could set fees to recover all costs associated with the service provided, as recommended by the Auditor General in 2009; this would raise over $500 million per year in additional revenue. Or it could index all user fees each year by the rate of inflation. The government should update its user fees using a blend of full cost recovery and indexation, with the change phased in over the next two years.

The Commission has no mandate to recommend tax increases. However, we have noted throughout the report that revenues tend to grow more slowly than nominal GDP. As such, our Status Quo Scenario features a decline in the tax burden, defined as the revenue-to-GDP ratio. Allowing the overall tax burden to decline magnifies the severity of program spending restraint required if we are to return to a balanced budget. This severity could be alleviated somewhat if the taxes that do not keep pace with economic activity were reformed to do so. Consistent with our mandate, we have not incorporated any such revenue increases into our Preferred Scenario. We simply note the reforms that could prevent a decline in the overall tax burden.

The main source of this downward bias in the tax burden is education property taxes, including business education taxes (BETs), and a number of excise taxes that are levied on the volumes rather than the values of the products.

Since 2000, property assessments have more than doubled, but municipal property taxes have increased by only 70 per cent and education tax revenues, by only one per cent per year. This is because the provincial government fully offsets the impact of reassessment when resetting education tax rates. This reduces revenues available to support education and requires increased transfers to school boards. The province should stop fully offsetting reassessments so that revenues increase with inflation.

An additional concern is the wide range of BET rates across the province. Under a 2007 plan to address these distortions and inequities, high BET rates are being reduced to a target rate by 2014, eventually saving businesses $540 million annually. Since the plan was introduced, high BET rates have decreased and the variance among BET rates has narrowed, but a considerable gap remains. The province should continue to implement the BET reduction plan while considering options to avoid revenue losses; raising low BET rates would help to offset reductions in high BET rates. This would make the business tax system more equitable, while providing a significant increase in revenues for education — up to just over $1 billion by 2017–18.

Contraband tobacco is another issue. In recent years, tobacco consumption has flatlined after more than a decade of decline in smoking rates, partly because cheap illegal tobacco — which reduces provincial revenues — is available. Better enforcement has generated results. The government has taken steps to deter illegal tobacco but needs to go further. Measures we recommend could result in increased annual revenue of up to $225 million.

Excise taxes — on beer, wine, tobacco and gasoline, for example — are levied on the volume sold, not the value (that is, they are specific, not *ad valorem,* taxes). So if prices rise, but not volumes, revenue from the taxes does not respond. The government should switch to *ad valorem* taxes, or otherwise capture changes in values, so revenue will reflect inflation.

Liability Management

No fiscal projection is static; once released, it is subject to risks that can have a positive or negative impact on the province's actual fiscal results. Ontario's fiscal plan includes a reserve to protect against adverse changes in the revenue and expense outlook, but it is too inflexible. General risks should be handled through the contingency reserve, which should be set higher than in recent budgets and grow over time. Modest internal risks should be addressed through an operating reserve.

There are risks the government cannot predict — like SARS, H1N1 or support of the auto sector. Other risks — like the need for forest firefighting — are known in advance, but the scope of the need is not. Finally, there are risks that are unknown both in their probability and their cost. The government should have an explicit strategy for dealing with risk. We have identified a number of liability risks for which the province should develop management plans. These are known risks that are subject to mitigation strategies. More will undoubtedly surface, so the liability management strategy must be very fluid.

Pension Benefits Guarantee Fund (PBGF): Created in 1980, the PBGF was designed to assist pensioners and plan members when occupational pension plans are wound up with too few funds to cover promised benefits and the employer cannot make the required payments. It is administered by the Superintendent of Financial Services and generally covers single-employer defined benefit pension plans in the private sector and BPS. Ontario is the only sub-national jurisdiction in the world to provide such coverage. A 2010 study concluded that the PBGF was not sustainable in its current form. As such, it presents a large fiscal risk for the province in the event of another economic downturn. The province should either terminate the fund or see if it can be transferred to a private insurer.

Liability from Pension Funds in the BPS: Ontario's public-sector pension plans — to which the province provides direct and indirect funding — include some of the largest in the country. More transparency and strategic planning would help manage this risk. The government should develop plans to contain fiscal risks. Five plans are consolidated in the province's financial statements. The province is wholly or partly responsible for any shortfalls in three of those: the Public Service Pension Plan (PSPP); OPSEU Pension Plan (OPSEUPP); and Ontario Teachers' Pension Plan (TPP). The employers bear this joint responsibility for the Healthcare of Ontario Pension Plan (HOOPP) and Colleges of Applied Arts and Technology (CAAT) Pension Plan. The Commission encountered considerable confusion on the question of who bears the ultimate financial responsibility for funding deficits. The government should clarify who ultimately holds financial liability.

The three pension plans sponsored or co-sponsored by the province now have funding shortfalls; HOOPP was fully funded as of its latest valuation, while CAAT had a small surplus. Many of these have increased employer and employee contribution rates and some have reduced or eliminated the guarantee of inflation protection. A sensitivity analysis of the health of these plans would be useful since views differ on how their liabilities should be valued. The government has few levers to make significant short-term adjustments to its pension costs, but long-term savings are possible.

When faced with future shortfalls, pension plan sponsors should reduce prospective benefits to limit the need for further contribution rate increases. For its part, the government should make benefit cost containment part of its compensation negotiating strategy for the BPS. The government should seek opportunities to save money and obtain better investment returns by consolidating administrative functions and pooling the investments of pension plans across the BPS. Transparency is also important. The cost of the public-sector pension plans should be made much clearer in the *Public Accounts* and the *Budget*.

The Taxpayer Protection Act fetters the government's capacity to make decisions regarding revenues due to its restrictions on increasing tax rates or introducing a new tax. Ultimately, the government is accountable to taxpayers if it decides to modify tax rates or introduce a new tax. Modifying or eliminating this act will allow spending and taxes to be used as required to address the threats of fiscal sustainability.

Environmental Risks: To better protect the province from the costs of environmental cleanup, the legislation should be changed to put more focus on the principle of "polluter pays." Other options include a program like Superfund in the United States, which has the authority to clean up hazardous waste sites.

Risks Posed by the Federal Government: Ontario is always subject to the risk of federal government policy changes, which can disrupt the province's fiscal planning and public services. Among the known risks:

- The outcome of current negotiations for a comprehensive free trade agreement with the European Union could significantly raise the cost of prescription drugs in Ontario because the proposed harmonization of patent rules would keep generic drugs off the market for longer. This could cost Ontario up to $1.2 billion per year, more than wiping out the savings from the provincial government's recent drug reforms;
- Ontario and the federal government share a common personal income tax base and Ontario generally parallels any federal changes. Federal proposals to expand income splitting and double the contribution limit on Tax-Free Savings Accounts could reduce Ontario revenue by $1.3 billion annually;
- Changes in the Canada Health Transfer (CHT) will cost Ontario almost $231 million per year based on current forecasts, but could reach almost $421 million if GDP growth falls to three per cent; these reductions will grow over time. Tying the CHT to GDP growth will almost inevitably reduce the federal contribution to health spending;
- Recent crime legislation will place further demands on the provincial court and corrections systems. The federal government has not yet recognized or addressed the additional cost. The lowest cost estimate of the impact of the federal crime bill is $22 million per year; it will probably be much higher; and
- A three-year social housing agreement with the federal government signed last year will provide $480 million, split 50–50, to build or repair 6,000 affordable housing units. There is currently no federal funding commitment beyond the end of the current agreement.

Risks Posed by the Municipal Sector: There are potential risks for the province in the event of default by a municipality. The province should work with municipalities to ensure that commitments are met. Known risks include potential overruns in municipal infrastructure and the Pan Am Games. Although municipalities are responsible for maintaining their infrastructure, there are continual calls on senior governments to finance new projects. What is needed is a comprehensive plan that points the province, municipalities and the federal government in the same direction. This is an opportune time to take stock of the current approach to municipal infrastructure. Toronto and the Golden Horseshoe region will host the 2015 Pan Am Games. The province is contributing $500 million and is responsible for any spending beyond the approved $1.4 billion budget. As the deficit guarantor, the province must be vigilant in ensuring that the parties involved do not allow any overrun in expenditures.

Unknown Risks: Risks that we cannot foresee are inevitable. The fiscal plan must also be prepared for the unexpected and provide for unknown risks as well.

Intergovernmental Relations

Federal, provincial and municipal governments all deliver services to Ontarians, often with inconsistent objectives and unco-ordinated activities. Better co-ordination would help in some areas, but in others, a whole new delineation of responsibilities is needed. The province's relations with the federal government and with Ontario municipalities have major consequences for the provincial budget. We will deal with each in order.

Federal-provincial relations

In 2009–10, Ontario's 39 per cent of Canada's population contributed about 39 per cent of federal revenues, but benefited from only 34 per cent of federal spending — a gap worth about $12.3 billion or 2.1 per cent of Ontario's 2009 GDP. The spending gap is a clear demonstration of the perverse structure of Canadian fiscal federalism.

Under the Constitution, the provincial and federal governments explicitly share some responsibilities, while issues unknown in the 19th century have forced governments to work together. This collaboration has resulted in accomplishments such as medicare, social services and tax reform, but federal actions can sometimes disrupt provincial fiscal planning and public services. Ontario needs federal co-operation to address the fiscal, economic and demographic challenges it faces, as do other provinces. More than ever, all governments must work together to reform public services. The time for a new federal-provincial paradigm is now.

The Ontario government should establish an understanding with the federal government that federal actions pose fiscal risks to Ontario. There are now four major risks:

- **Changes to the common tax base:** Common personal and corporate income tax bases simplify tax filing. Proposed federal changes on income splitting and Tax-Free Savings Accounts could cost Ontario $1.3 billion in lost revenue, since the province would likely mirror these changes. And because Ontario parallels some federal tax provisions for business, federal changes to the Scientific Research and Experimental Development tax credit should only be done in consultation with the province.
- **Changes to Canada's Criminal Code:** Changes to the Criminal Code will impose new demands on the provincial court and corrections system, adding to the fiscal burden. The new "tough on crime" legislation is expected to result in substantially higher costs for Ontario. (See Chapter 14, Justice Sector, for full recommendations.)
- **Reducing support for immigration settlement services:** In 2005, the federal and Ontario governments agreed to increase funds for immigration settlement services in the province. The federal government has underspent by more than $220 million under the agreement, reducing potential services to help newcomers settle, integrate, receive language training and find work.

- **Long-term health costs outstripping federal funding:** The CHT and the Wait Times Reduction Fund are set to expire in 2014. The federal government plans to increase the CHT by its current six per cent per year until 2017, but then tie the growth rate to Canada's nominal GDP, with a three per cent floor. While we recommend capping the growth of Ontario health spending below that level to balance the budget by 2017–18, the long-run cost of health care will almost certainly grow faster than nominal GDP. Moving to a GDP-based growth rate would cost Ontario about $239 million in 2017–18, but could reach nearly $421 million if GDP growth is below three per cent. These gaps will grow. Constraining CHT transfers in this fashion will reduce even further the federal government's minority share of health care funding.

Aside from the major transfers (CHT, Canada Social Transfer [CST] and Equalization), the federal government has made no commitment to renewing other expiring transfers. Ontario needs a reliable and predictable federal partner.

Some federal programs that directly serve Ontarians or fiscal arrangements that support provincial services should be modernized and reformed. The province should advocate strongly to change federal programs that do not work effectively in Ontario's interests. (Full recommendations on these points can be found in the individual chapters.)

Equalization: A ceiling on Equalization limits the size of the program to the nominal growth rate of national GDP despite rising disparities among the provinces. The program fails to fully capture and share the wealth generated by high commodity prices in other parts of Canada. Nor does the program account for Ontario's higher cost pressures, which affect the cost of public services. Equalization should fully capture resource revenues and accommodate differing price levels among provinces.

Canada Social Transfer: The federal government generates revenues from Ontario on a nearly equal per capita basis; the CST then returns money to the province on an equal per capita basis. This unnecessary step is inefficient and reduces accountability and transparency. The CST should be transferred to the provinces in the form of tax points; in other words, the federal government should reduce its taxes so provinces could increase theirs by an equivalent, revenue-neutral amount.

Employment Insurance: Employment Insurance does not meet the needs of the modern labour market. In 2010, Ontarians contributed about 40 per cent of EI premiums, yet received only 32 per cent of benefits. And despite having an unemployment rate above the national average, only 32 per cent of unemployed Ontarians get EI, which also restricts their eligibility for training. The changes recommended by the Mowat Centre for Policy Innovation would improve outcomes for Ontario workers and employers.

Income assistance for persons with disabilities: Individuals with severe disabilities face significant barriers to gaining employment and earning a decent wage. These vulnerable individuals are now served by a "tangled safety net" of federal and provincial programs. They would be better served by a national income support program.

Immigration policy: Immigration will increasingly be a source of Ontario's population and economic growth. We noted above that the federal government has underinvested in Ontario and plans further cuts in immigration settlement spending. Moreover, Ontario is allowed to nominate only 1,000 individuals through its PNP, compared to 5,000 for Alberta. The province should have more influence in determining immigration policy. The federal government should also devolve immigration services, with funding, to Ontario.

Education for First Nations on-reserve: Better education on reserves is crucial to improving the social and economic outcomes of First Nations peoples, but federal funding per student falls short of the provincial average. The province should put strong pressure on the federal government for adequate funding. Failing such action, which is clearly justified and desperately needed, the province should plug this gap.

Green energy: The federal government has provided little support for Ontario's green energy initiatives, but $1.4 billion in annual subsidies to the oil and gas sectors. Ontario needs fair and equitable support for its clean energy initiatives.

Working together to rationalize public services: The provincial and federal governments should reduce overlap and duplication of services. This discussion could start by examining inefficiencies in overlapping employment and labour-market training services; the effectiveness of federal immigration settlement programs; the potential gains from each government specializing in corrections or parole services; collaboration in direct citizen transactional services; the benefit of a national transit strategy; and rationalization of environmental protection activities and regulations.

Employment and training services: The fragmented nature of various federal-Ontario labour-market agreements limits the province's ability to benefit from fully integrated services. Several of these agreements expire after 2013–14, so there is an opportunity for reform. Greater flexibility for Ontario would allow the province to adapt the full suite of labour-market programs to meet changing labour-force needs.

Immigration settlement and integration services: Both the federal and Ontario governments provide immigration settlement services, with significant overlap that creates inefficiencies and reduces co-ordination. Responsibility for integrating newcomers should lie with local authorities, which can respond to regional needs. Settlement programs have been devolved to provincial governments in British Columbia, Manitoba and Quebec, but the federal government has not agreed to do the same for Ontario. The federal government should devolve these services to Ontario with funding.

Corrections services: Effective rehabilitation keeps communities safe and controls correctional expenses, but the current arrangement prevents the maximization of these benefits. Offenders sentenced to less than two years go to provincial prisons, while the rest serve their time in federal penitentiaries. There are too few inmates serving sentences of between six months and two years for the province to provide rehabilitation services. The government should explore uploading the responsibility for inmates serving six months and more to the federal government; this would give these inmates access to federal rehabilitation services.

Citizen transactional services: ServiceOntario, which integrates the services delivered by various ministries into one easy-to-access location, has reduced wait times, improved accessibility and achieved efficiencies. The federal, provincial and municipal governments should continue to explore other opportunities to collaborate.

National transit strategy: Traffic congestion is a systemic issue from coast to coast, justifying a national approach. Canada is the sole nation in the OECD that lacks a national transit strategy.

Environmental protection and regulation: Environmental management is shared by the provincial and federal governments. Although the two co-operate on environmental assessments, more remains to be done. The federal government is reviewing its legislation in this area and has shown interest in removing duplication between approvals processes. The two governments should continue to pursue the creation of a “one project–one environmental assessment” solution.

Provincial–Municipal Relations

Municipalities provide many services — such as social housing, social assistance, drinking water quality, public transportation, land use planning and waste management — that are governed by provincial legislation and standards. Most municipal revenue comes from local sources, mainly property taxes. Yet provincial transfers account for nearly one-fifth of their revenue, including contributions to cost-shared programs and unconditional funding through the Ontario Municipal Partnership Fund (OMPF).

Provincial support to municipalities has increased substantially since 2003, mainly to reverse the downloading of responsibilities of the previous decade. After the 2008 Provincial-Municipal Fiscal and Service Delivery Review, the province agreed to upload various municipal costs over a 10-year period. The province also funds municipal infrastructure. Recommendations on provincial-municipal issues are found in many chapters of this report.

Support to municipalities is on track to rise by an average of 5.2 per cent per year to 2018. Much of the growth comes from the remaining $500 million of uploading. Excluding that, transfers would still grow significantly faster than the 0.8 per cent annual pace we recommend for overall program spending growth. The Commission supports the upload and we realize that any change in the upload merely shifts, not solves, the fiscal problem. Most municipalities also struggle with their budgets. Still, we believe that overall spending restraint means that total transfers should not increase as rapidly. We recommend first that the upload period be extended by two years to 2020 and second that the OMPF should decline to the planned $500 million by 2016.

The province and municipalities should also track how municipalities invest the benefits realized from the uploads. This accountability framework should focus on new municipal capital spending.

The province and municipalities share the property tax base — a stable revenue source that funds local services and a portion of elementary and secondary education. However, the practice of cutting education tax rates to offset reassessment increases has reduced revenues for education, which is supported by property taxes. The province should maintain stable education tax revenues in real terms. (There is more on this in Chapter 18, Revenue Integrity.)

Different levels of government must work together to find the most efficient ways to service those most in need. To maintain service levels while limiting spending growth to 0.8 per cent per year, all players, including municipalities, must commit to greater efficiency and transformation.

Appendix 1: Commission Recommendations

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Chapter 1: The Need for Strong Fiscal Action

Recommendation 1-1: We recommend the following annual changes in program spending out to 2017–18:

- Health care — plus 2.5 per cent;
- Education (primary and secondary) — plus 1.0 per cent;
- Post-secondary education (excluding training) — plus 1.5 per cent;
- Social services — plus 0.5 per cent; and

All other programs — minus 2.4 per cent.

Chapter 3: Our Mandate and Approach

Recommendation 3-1: Do not simply cut costs. The imperative to restrain spending should instead be an opportunity to reform programs and service delivery. Simple cost-cutting can be effective in hitting near-term deficit reduction targets, but it does not encourage longer-run fiscal stability or allow for reforms that will generate more value for money spent.

Recommendation 3-2: Avoid across-the-board cuts. Such a blunt tool treats equally a valuable, efficiently run program and one that is outdated and sloppily managed. This is dumb. Spending should be aligned with government priorities so that high-priority initiatives are adequately funded while lower-priority programs are either cut substantially or eliminated outright. Across-the-board cuts represent an abdication of the government's responsibility to make real, and often difficult, decisions.

Recommendation 3-3: Avoid setting targets for the size of the civil service; instead, set targets for outputs, not inputs. Focus on the cost of programs and services and on value for money. A smaller and leaner civil service will be an inevitable result of reducing the cost of programs and achieving greater value for money.

Recommendation 3-4: The government should not rely unduly on hiring freezes and attrition to reduce the size of the civil service as a result of any spending restraint. Such approaches typically weaken the quality of the civil service for years — even decades — to come. Lower-priority and less efficient programs and services must be targeted for reduction; the result will be fewer employees working in these areas. More generally, the focus must be on retaining good employees while letting go of those who are not performing well. All employee appraisal and bonus schemes must be aligned to these objectives; for example, the government should continue to offer performance bonuses to those who exceed job requirements.

Recommendation 3-5: Do not hang onto public assets or public service delivery when better options exist. Consider privatizing assets and moving to the private delivery of services wherever feasible. We suggest pursuing this course only where the public can get better value for money spent without compromising access to services, not for ideological reasons. In budget planning, do not count chickens before they are hatched. If assets are to be sold, never incorporate any revenue from such planned sales into a budget before the fact; there is always uncertainty over the timing, accounting treatment and ultimate market value of any sale. Instead, simply record any sale in the appropriate manner if and when it is completed.

Recommendation 3-6: The length of time it will take to return to balance in a sustainable fashion significantly changes the nature of the approach. Traditional “short-term fixes” will not be adequate or even, in many cases, appropriate. Examples include asset sales solely for the purpose of a one-time cash injection; freezes to wages or managers’ bonuses; and deferrals of capital investments and other necessary spending. Kicking the can down the road is no solution. Spending restraint must be thoroughly and consistently tied to permanent reforms in how government operates so the results of the restraint exercise can be sustained over a long period.

Recommendation 3-7: Once it has decided how to respond to this report, the government should begin with a good road map — a formal document of its vision and the path to the goal. There are precedents for such a tool. In 1984, the Mulroney government published its *Agenda for Economic Renewal*, an extensive paper that laid out in one place all the government’s plans. The Chretien government did the same in 1994 with two documents recalled more for their colour — the *Purple Book* and the *Grey Book* — than their titles. Each of these documents not only informed the public about the changes that lay ahead, but also became a script for all bureaucrats, who saw how their own programs and activities fit into the broader picture.

Recommendation 3-8: Higher priority should be assigned to programs and activities that invest in the future as opposed to those that serve the current status quo. This is never easy: the status quo has plenty of advocates; the future does not. It is up to government to fill this breach. As Massachusetts Institute of Technology economist Lester Thurow once suggested, “The proper role of government in capitalist societies is to represent the future to the present.”

Recommendation 3-9: Policy development and the public service in general should be more evidence-based. This requires setting clear objectives based on sound research and evidence. The government should collect data and use it to evaluate whether objectives are being met and how efficiently. Managers should be accountable for achieving these objectives. Where objectives are not being met, programs and services should be adjusted. Reporting should be transparent and audits conducted. The evidence-based model should be applied to the success of individuals and departments in meeting objectives. At the same time, ministries, as well as agencies and entities accountable to the government, should be given some latitude to conduct their affairs in an efficient manner.

Recommendation 3-10: This raises a tricky issue that faces all governments. On the one hand, they need to minimize the cost of operations; on the other, they need rules and reporting to ensure that taxpayers' money is not being abused. All governments must strike a balance between these competing obligations. We believe the pendulum has now swung too far towards excessive rules. Government operations have trouble responding quickly and consistently, often because it takes so much time, for example, to process minor requests for proposals (RFPs) or to get consistent supplies when everything is broken into discrete RFPs. When there are too many rules, as there are now, government employees and private suppliers are forced to divert people — or even add new staff — to ensure that compliance and reporting requirements are met. This is the case even though the information reported is often not used at the other end to influence changes in policy or service delivery. Although it is impossible to get a full accounting of the costs of monitoring compliance relative to the benefits gained, we believe there are simply too many layers of watchers at the expense of people who actually get things done. The government must find a new middle ground.

Recommendation 3-11: Boundaries between public- and private-sector activities should be shifted and, in many cases, removed. For the most part, policy development needs to remain in the realm of the government, though various stakeholders and community groups could and should be more involved. External groups should even be involved in advising the most senior government decision-making bodies, including the Cabinet.

Recommendation 3-12: Within their operations, public-sector service providers should assign people to jobs where they are most effective, efficient and affordable. Physicians should not perform tasks that could be done more efficiently and at a lower cost by physician assistants, registered nurses, nurse practitioners or pharmacists. Case workers need not deal with all aspects of social assistance, employment or training matters when some clients are willing and able to receive services by telephone or through the Internet. In the policing sector, non-core services such as data entry could be done by clerical staff rather than officers whose time and training are better deployed elsewhere.

Recommendation 3-13: Seek common themes across the reforms to achieve economies of scale in action and simplify communications. Common themes would include a shift towards evidence-based policy development and service delivery; more efficient service delivery models for all areas interacting with the public; the efficient use of and appropriate rates of return on Crown assets; and consolidation of such backroom operations as information technology and human resources.

Recommendation 3-14: Reform must be pervasive and speedy. There is an understandable tendency to approach any set of reforms piecemeal and over an extended period. This tendency must be resisted, in part because the record is not kind to such an approach and more importantly, because it runs contrary to our fiscal mandate to balance the budget by 2017–18. First, the government will need to implement all the reforms we recommend — or at least some reasonable facsimile in fiscal terms — to restrain the growth of program spending enough to achieve balance by 2017–18. This is not a smorgasbord from which the government can choose only the tastiest morsels and ignore the less palatable. Second, the restraint process will succeed only if the public believes the reforms are fair. Broader action favours such a perception as opposed to a view that a handful of programs were unfairly targeted. Third, we can all agree that change is disruptive, but the medicine does not go down more easily if it is dragged out over a long period. Indeed, such delay merely discourages people — public servants and those receiving government services — and postpones the day when a new system is operating efficiently. Although there may be limits to the capacity of the public service to instigate, execute and monitor change, once the financial parameters are set, first for ministries and then for programs, many of the reforms will be handled by people further down the chain.

Chapter 5: Health

Recommendation 5-1: Develop and publish a comprehensive plan to address health care challenges over the next 20 years. The plan should set objectives and drive solutions that are built around the following principles:

- The system should be centred on the patient, not on the institutions and practitioners in the health care system;
- The plan should focus on the co-ordination of services for patients in a fully integrated system-wide approach;
- Reforms should recognize changes and challenges in both demographics and lifestyles by putting more emphasis on chronic than acute care;
- At the provincial level, the system must be able to carry out health care capacity planning; it must look at the health needs of the population and project future needs for facilities, services, funding and human resources;
- Policies should be based on evidence that provides guidance on what services, procedures, devices and drugs are effective, efficient and eligible for public funding;
- There should be a heightened focus on preventing health problems, including the role of public health in meeting this goal;
- It should ensure that health data are collected efficiently and shared;
- Funding to providers should be based primarily on meeting the needs of patients as they move through the health care continuum; and
- The quality of care can and should be enhanced despite the need to restrain increased spending; the objectives of quality care and cost restraint must go hand in hand.

Recommendation 5-2: Evaluate all proposals for change that include efficiencies and cost savings within the vision and plan developed above.

Recommendation 5-3: Divert all patients not requiring acute care from hospitals and into a more appropriate form of care that will be less expensive, improve the patient experience and reduce the patient’s exposure to new health risks.

Recommendation 5-4: Increase the use of home-based care where appropriate to reduce costs without compromising excellent care. For example, home-based care should be used more extensively for recovery from procedures such as hip and knee surgery.

Recommendation 5-5: To improve the co-ordination of patient care, all health services in a region must be integrated.

Recommendation 5-6: Cap the government's health budget at 2.5 per cent or less annual growth through 2017–18. After 2017–18, annual health cost increases must be restrained to no more than five per cent, a level necessary to keep the provincial budget balanced without relying on tax increases or an unacceptable squeezing-out of other public services.

Recommendation 5-7: Support a gradual shift to mechanisms that ensure a continuum of care and care that is community-based. Funding for community-based care may need to grow at a higher rate in the short to medium term in order to build capacity to take pressure off acute care facilities; on the other hand, with a shift away from a hospital focus, hospital budgets could grow less rapidly than the average.

Recommendation 5-8: Achieve spending restraint by moving the health care system towards a more efficient overall design and finding efficiency gains within its constituent parts.

Recommendation 5-9: Do not apply the same degree of fiscal restraint to all parts of health care. Some areas — including community care and mental health — will need to grow more rapidly than the average.

Recommendation 5-10: Set the overall principles for provincewide health care, but continue to organize the delivery of health care on a regional basis.

Recommendation 5-11: A regional health authority should be clearly identified as the key point for integrating services and institutions across the full continuum of care for a geographic area.

Recommendation 5-12: Reduce the number of organizations with which the Local Heath Integration Networks must deal on a day-to-day basis.

Recommendation 5-13: Consolidation of health service agencies and/or their boards should occur where appropriate, while establishing any new consolidated agencies as separate legal entities to limit major labour harmonization and adjustment costs.

Recommendation 5-14: Establish an advisory panel in each Local Health Integration Network with appropriate representation of the regional health care stakeholders, including community hospitals, physicians, community care and long-term care homes.

Recommendation 5-15: The Local Health Integration Networks must integrate care across the system by sharing information on patients among health care providers, co-ordinating decisions and allocating funds to best reflect regional needs.

Recommendation 5-16: Use data and information sharing to better understand and address the fiscal impacts of chronic and complex conditions and at-risk patients with mental health and addiction issues (see Recommendations 5-37 to 5-41 for more on managing their care).

Recommendation 5-17: Use information from funding models such as the Health-Based Allocation Model (HBAM) to examine where services may not be provided equally across health regions and conduct ongoing evaluations of each Local Health Integration Network's progress in managing high-use populations. (See Recommendations 5-50 and 5-73 for more details on HBAM.)

Recommendation 5-18: Where feasible, services should be shifted to lower-cost caregivers. Across the spectrum of caregivers, full scope of practice needs to be exercised.

Recommendation 5-19: A broader perspective should be applied to decisions that are made on the scope of practice of health professionals. Government should play a more active role in working with the professional colleges to apply a system-wide approach rather than dealing with individual professions in isolation.

Recommendation 5-20: Maximize opportunities to use nurse practitioners with the aim of efficiency, while maintaining excellent care.

Recommendation 5-21: Recognize the increased demand for nurses in the capacity of nursing programs at colleges and universities and their ability to train more nurses.

Recommendation 5-22: Increase the use of personal support workers and integrate them into teams with nurse practitioners, registered nurses and other staff members where appropriate to optimize patient care.

Recommendation 5-23: Local Health Integration Networks need to use funding as a lever to encourage hospitals and other health care providers to use the full scope of practice of their staff.

Recommendation 5-24: Make changes to the Pharmacy Act to enable an expanded scope of pharmacy practice. This would involve developing supporting regulations to permit pharmacists to administer routine injections and inhalations, including immunization.

Recommendation 5-25: Hospital capital plans that extend out-of-hospital services such as those for outpatients should not be entertained by Local Health Integration Networks. Hospitals should conduct affairs largely within hospitals, and others, such as Community Care Access Centres (CCACs) and private health care operators, should be responsible for providing out-of-hospital services. The CCACs and private health care operators have demonstrated that they are capable of doing this work for less than hospitals.

Recommendation 5-26: Resist the natural temptation to build many more long-term care facilities for an aging population until the government can assess what can be done by emphasizing to a greater extent the use of home-based care that is supported by community services. Home-based care is less expensive and should generate greater population satisfaction.

Recommendation 5-27: Grant Local Health Integration Networks the authority, accountabilities and resources necessary to oversee health within the region, including allocating budgets, holding stakeholders accountable and setting incentive systems.

Recommendation 5-28: Tie compensation for CEOs and senior executives in all parts of the health care system to strategically targeted health outcomes, not the number of interventions performed, through a performance pay framework. Mirror this performance pay approach throughout each hospital, Community Care Access Centre, long-term care facility, etc., at the physician and health care worker levels.

Recommendation 5-29: Support transparency in senior executive and CEO salaries throughout the health care system by publicly posting comprehensive compensation information in a timely fashion.

Recommendation 5-30: Allocate funding based on meeting the needs of the patient as they move through the continuum of care.

Recommendation 5-31: Some regions have developed roles for “clerical system navigators” that co-ordinate appointments and assist patients with required forms and paperwork. Local Health Integration Networks should ensure that a sufficient number of people in this role are put in place across the entire health care system.

Recommendation 5-32: Empower primary caregivers and physicians in the Family Health Teams (FHTs) or specialized clinics to play the role of "quarterback," tracking patients as they move through the integrated health system. All FHTs should work in tandem with clerical system navigators and hospitalist physicians to track their patients who are in hospitals, from admission to discharge (see Recommendation 5-55 on hospitalists for more details).

Recommendation 5-33: Tightly integrate Community Care Access Centres (CCACs) with Local Health Integration Networks (LHINs) to improve patient case management. There are options that should be explored about the nature of this integration. It could be either through co-operation of two entities or a more formal and complete merger of CCACs into this one key aspect of the work of LHINs.

Recommendation 5-34: Require hospitals to make discharge summaries available electronically to other care providers (e.g., general practitioners, home care) immediately.

Recommendation 5-35: Switch to electronic delivery of laboratory test results to improve timeliness and efficiency, as well as support patient privacy.

Recommendation 5-36: Reduce absenteeism for Ontarians and office visits, while improving patient satisfaction, through secure messaging between patients and providers, online appointment scheduling, access to test results for patients, and online requests for prescription refills and renewal.

Recommendation 5-37: Complex care patients should be managed through interprofessional, team-based approaches to maximize co-ordination with Family Health Teams and other community care providers.

Recommendation 5-38: Chronic issues should be handled by community and home-based care to the fullest extent possible.

Recommendation 5-39: Reach out to patients who need preventive care, particularly chronic disease and medication management, rather than waiting for them to come to get services. Leverage electronic medical records, decision support and secure messaging with Ontarians to achieve these goals.

Recommendation 5-40: Reduce mortality, hospitalizations and costs while improving patient satisfaction by connecting Ontarians who have serious chronic health problems (e.g., congestive heart failure) with ongoing monitoring and support through expanded use of telehomecare.

Recommendation 5-41: Centralize leadership of chronic disease management by developing co-ordinating bodies for chronic conditions including mental health, heart and stroke and renal disease, based on the Cancer Care Ontario model.

Recommendation 5-42: Resource the Local Health Integration Networks adequately to perform their expanded functions. Additional resources should come in large part from the Ministry of Health and Long-Term Care; this would entail a significant transfer of employees.

Recommendation 5-43: Put in place clear structures to clarify the lines of accountability up to the Local Health Integration Networks (LHINs) and the accountability of LHINs to the Ministry of Health and Long-Term Care.

Recommendation 5-44: Move critical health policy decisions out of the context of negotiations with the Ontario Medical Association and into a forum that includes broad stakeholder consultation.

Recommendation 5-45: The Institute for Clinical Evaluative Sciences and Health Quality Ontario must work in tandem, integrating their respective expertise into practical recommendations for health care providers.

Recommendation 5-46: As a body of practice is established, expand the mandate of Health Quality Ontario to become a regulatory body to enforce evidence-based directives to guide treatment decisions and OHIP coverage.

Recommendation 5-47: Make all Health Quality Ontario work public. Use the evidence found to inform directives on practices and what will be covered by OHIP.

Recommendation 5-48: More work must be done on the efficiency front for the Institute for Clinical Evaluative Sciences.

Recommendation 5-49: Explore the potential for a national Organization for Economic Co-operation and Development-type entity that collates and enhances evidence-based policy directions and provides enhanced collaboration on issues across jurisdictions. It could provide a gathering place for dialogue and a secretariat with a capacity for analysis. Such an organization could be housed with the Council of Health Ministers or Deputy Ministers. The federal government should be involved.

Recommendation 5-50: Use data from the Health-Based Allocation Model (HBAM) system to set appropriate compensation for procedures and cease the use of average costs to set hospital payments (see Recommendations 5-17 and 5-73 for more details on HBAM).

Recommendation 5-51: Create a blend of activity-based funding (i.e., funding related to interventions or outcomes) and base funding managed through accountability agreements.

Recommendation 5-52: Create policies to move people away from inpatient acute care settings by shifting access to the health care system away from emergency rooms and towards community care (i.e., walk-in clinics and Family Health Teams), home care and, in some cases, long-term care.

Recommendation 5-53: Encourage hospitals to specialize so all are not trying to provide all services regardless of their comparative advantages.

Recommendation 5-54: Given the burden of alternate level of care (ALC) patients on hospital capacity, hospitals must become more effective in optimizing this capacity while applying best practices in planning patient discharges. Further, small hospitals with large ALC populations must be assessed with a goal of redefining their role in care for the elderly. Again, funding should be aligned appropriately.

Recommendation 5-55: Use hospitalist physicians to co-ordinate inpatient care from admission to discharge. Hospitalists should work with Family Health Teams to better co-ordinate a patient's moves through the health care continuum (acute care, rehabilitation, long-term care, community care and home care).

Recommendation 5-56: Make primary care a focal point in a new, integrated health model.

Recommendation 5-57: Regional health authorities must integrate physicians into a rostered health system and adopt the appropriate measures to address compensation issues across disciplines; that is, the proper blend of salary/capitation and fee-for-service.

Recommendation 5-58: Reduce the sole proprietorship nature of the offices of many primary care physicians and encourage more interdisciplinary integration through performance incentives and accountability.

Recommendation 5-59: Compensate physicians using a blended model of salary/capitation and fee-for-service; the right balance is probably in the area of 70 per cent salary/capitation and 30 per cent fee-for-service.

Recommendation 5-60: Aggressively negotiate with the Ontario Medical Association for the next agreement.

Recommendation 5-61: Adjust fee schedules in a timely manner to reflect technological improvements, with the savings going to the bottom line of less expenditure on health care.

Recommendation 5-62: Make Family Health Teams (FHTs) the norm for primary care and design the incentive structure of physicians' compensation to encourage this development. Among the key characteristics of FHTs are the following:

- The regional health authority should play a key role in determining their relationship with the rest of the health care system and setting ground rules for their operation;
- Make outcomes the focus of FHTs, not health interventions. Their operation should be tightened through objectives, accountability and a data collection system;
- Conduct research to determine the optimal size of FHTs, taking into account factors such as geography and patient demography. Balancing economies of scale while maintaining personal connections between health care providers and patients is crucial: FHTs need the scale to support a wide range of care providers and be able to support the administration necessary, including the responsibility of tracking people through the system. It has been suggested to the Commission that the optimal size, for larger communities, may be in the range of 8 to 15 physicians, and include practitioners with a wider range of specialties than is now the case. They now typically have only three to eight physicians; and
- To provide a range of services at a lower cost, include other health professionals in the FHTs (nurse practitioners, registered nurses, dietitians and midwives, for example). Unlisted practitioners such as physiotherapists and massage therapists would also be part of FHTs; however, their services would be provided on a cost-recovery basis.

Recommendation 5-63: Require Family Health Teams (FHTs) to accept patients who choose them, and the FHTs should work with each patient to connect them with the most appropriate constellation of care providers.

Recommendation 5-64: The regional health authority should establish incentives to discourage Family Health Teams from referring patients to acute care.

Recommendation 5-65: Regional authorities should also be responsible for assigning heavy users of the health care system to the appropriate Family Health Team (FHT). If, for example, there are 300 heavy users within a region and three FHTs, the regional health authority would try to steer 100 to each, so that no FHT is overburdened.

Recommendation 5-66: Because Family Health Teams (FHTs) will be responsible for patient tracking, they will need to build a critical mass of an administrative arm to carry out this task. This administrative arm should be shared among a number of FHTs.

Recommendation 5-67: Better after-hours care must be offered and telephone/Internet services should direct patients to the most appropriate and convenient care provider.

Recommendation 5-68: All Family Health Teams must be encouraged to add more specialists to their teams, which will reduce referrals and ease some of the complexities of patient tracking.

Recommendation 5-69: The Ministry of Health and Long-Term Care should allow the flexibility necessary for Family Health Teams to share specialists by permitting part-time contracts.

Recommendation 5-70: All Family Health Team physicians must begin engaging in discussions with their middle-aged patients about end-of-life health care.

Recommendation 5-71: Improve access to care (e.g., in remote communities) and productivity for specialists by triaging appropriate patients for telemedicine services (e.g., teledermatology, teleophthalmology).

Recommendation 5-72: Remove perverse incentives that undermine the quality and efficiency of care. For example, physicians are penalized when one of their patients goes to another walk-in clinic, but not when the patient goes to the emergency department of a hospital. More generally, the fee-for-service compensation model gives an incentive for medical interventions without due consideration to quality and efficiency of care. Such incentive issues must be addressed by focusing the Ontario Medical Association's negotiations more on quality of care and amending payment systems for physicians and throughout the health care system.

Recommendation 5-73: The model described in the above recommendations must be supported by a robust data collection and sharing system that allows the creation of the necessary records. For example, the model works only if we know how many patients are *not* visiting emergency departments or how many diabetes patients are *not* experiencing complications (see Recommendations 5-17 and 5-50 on Health-Based Allocation Model data for more details).

Recommendation 5-74: Increase the focus on home care, supported by required resources, particularly at the community level.

Recommendation 5-75: Match seniors to the services that they need from the earliest available care provider, reduce alternate level of care days, and improve co-ordination of care through the use of referral management tools for long-term care, home care and community services.

Recommendation 5-76: Implement the recommendations contained in "Caring for Our Aging Population and Addressing Alternate Level of Care," a report prepared by Dr. David Walker and released in August 2011.

Recommendation 5-77: In addition to recommendations contained in "Caring for Our Aging Population and Addressing Alternate Level of Care," a report prepared by Dr. David Walker and released in August 2011, there is a need for more and varied palliative care; at home and in residential hospices.

Recommendation 5-78: Integrate the public health system into the other parts of the health system (i.e., Local Health Integration Networks).

Recommendation 5-79: Review the current funding model that requires a 25 per cent match from municipalities for public health spending.

Recommendation 5-80: Consider fully uploading public health to the provincial level to ensure better integration with the health care system and avoid existing funding pressures.

Recommendation 5-81: Improve co-ordination across the public health system, not only among public health units, but also among hospitals, community care providers and primary care physicians.

Recommendation 5-82: Replicate British Columbia's Act Now initiative, which has been identified by the World Health Organization as a best practice for health promotion and chronic disease prevention, in Ontario.

Recommendation 5-83: Have doctors address diet and exercise issues before reaching for the prescription pad when dealing with health issues such as cardiovascular disease and late-onset Type 2 diabetes.

Recommendation 5-84: Do more to promote population health and healthy lifestyles and to reverse the trend of childhood obesity, especially through schools.

Recommendation 5-85: Work with the federal government on nutrition information and, where appropriate, regulation.

Recommendation 5-86: Medical schools should educate students on “system issues,” so they better understand how physicians fit into the health care system; for example, how to deal with patient needs efficiently and effectively, but using fewer resources by connecting different parts of the health care system.

Recommendation 5-87: Do a better job of flagging health professions and locations that are currently in short supply or where shortages can be expected in the future.

Recommendation 5-88: Link the Ontario Drug Benefit program more directly to income.

Recommendation 5-89: Help reduce medication errors through the use of electronic supports to cross-reference multiple prescriptions.

Recommendation 5-90: Reduce fraudulent prescription medication use through the use of drug information systems.

Recommendation 5-91: Pursue — with other provinces — the possibility of establishing a national entity that would set a common price for pharmaceuticals for the entire country (or at least jurisdictions opting in).

Recommendation 5-92: Conduct drug-to-drug comparisons to determine which drug is the most efficient at addressing a given ailment.

Recommendation 5-93: Work with the federal government to ensure that Ontario’s interests in expanding use of generic drugs are not undermined by a Canada-European Union Free Trade Agreement.

Recommendation 5-94: Use pharmacists to their full scope of practice.

Recommendation 5-95: Centralize all back-office functions such as information technology, human resources, finance and procurement across the health system.

Recommendation 5-96: Establish a central mechanism to oversee the creation of a “spot market” for goods and discretionary services, such as diagnostics, infusions and specialist consultation services.

Recommendation 5-97: Put a wider array of specialist services to tender based on price and quality, while remaining under the single-payer model.

Recommendation 5-98: Put to tender more service delivery, but with the criteria for selection based on quality-adjusted metrics rather than just price.

Recommendation 5-99: Accelerate the adoption of electronic records, working in a bottom-up fashion.

Recommendation 5-100: Adopt the Nova Scotia model in which emergency medical technicians provide home care when not on emergency calls; this requires integrating municipal and provincial funding structures.

Recommendation 5-101: Provide better information to individuals and families to facilitate self-care, for people with conditions such as diabetes.

Recommendation 5-102: Begin a dialogue with Ontarians on the issue of expanding the coverage of the health system to include, for example, pharmaceuticals, long-term care and aspects of mental health care.

Recommendation 5-103: Involve all stakeholders in a mature conversation on the future of health care and the 20-year plan.

Recommendation 5-104: Establish a Commission to guide the health reforms.

Recommendation 5-105: Do not let concerns about successor rights stop amalgamations that make sense and are critical to successful reform.

Chapter 6: Elementary and Secondary Education

Recommendation 6-1: To meet our overall fiscal objectives, the Commission believes that the growth rate in the education budget over the term from 2010–11 to 2017–18 must be constrained to one per cent per year.

Recommendation 6-2: The budget constraint must be applied strategically so as not to jeopardize the improvements in results achieved, such as on provincial assessments and with graduation rates.

Recommendation 6-3: The elementary and secondary education sector should stay the course with its current agenda, which consists of three key goals: improving student achievement, closing gaps in student outcomes and increasing confidence in the publicly funded school system. The province and the sector must sustain the current alignment between provincial, school board and school-level efforts, and sustain the “pressure and support” approach adopted in recent years.

Recommendation 6-4: Reforms in the elementary and secondary sector should be introduced so that all stakeholders have their role to play in ensuring the system’s long-term sustainability and so that unnecessary sources of distraction are avoided.

Recommendation 6-5: To ensure transparency and effectiveness, the province should confirm multi-year allocations to school boards for the 2012–13 to 2017–18 period so that they can plan accordingly, have enough time to find the required efficiencies and enter negotiations for renewal of the sector’s collective agreements that will expire on Aug. 31, 2012, with clear knowledge of their budgetary position.

Recommendation 6-6: The Ontario government should put strong pressure on the federal government to provide funding for First Nations on-reserve education that at least reaches parity with per-student provincial funding for elementary and secondary education.

Recommendation 6-7: The province should negotiate with the federal government and First Nations to ensure the establishment of new multi-year, strategic top-up funding agreements for on-reserve schools. These agreements, voluntary for interested First Nations, would ensure that per-student funding for on-reserve schools is at least equivalent to that provided to adjacent English-language public district school boards.

Recommendation 6-8: Agreements with the federal government should facilitate the formation of education entities among participating First Nations with powers similar to provincially funded district school boards. To establish a system of support services for on-reserve schools, chief executive officers of the new education entities should join the Council of Ontario Directors of Education as well as the regional education councils. Additionally, the new education entities should negotiate with the province multi-year targets for the proportion of supervisory officers, principals and teachers who will be deemed qualified by the Ontario College of Teachers. Such qualifications can be earned from existing providers or from newly accredited Aboriginal service providers.

Recommendation 6-9: When negotiating funding agreements, the province should pressure the federal government to increase funding for capital for on-reserve schools and consider transferring this funding to the province, which is better equipped to provide expertise for K–12 capital renewal and construction.

Recommendation 6-10: Failing to come to an agreement with the federal government, the Commission recommends that the province step up to provide funding to ensure that on-reserve schools are funded at parity with adjacent English-language public district school boards.

Recommendation 6-11: Given the difficulties with such an approach, and the prohibitive cost of the program overall at this time, the Commission recommends cancellation of the full-day kindergarten (FDK) program, without prejudice to schools that already had FDK before the introduction of this government strategy.

Recommendation 6-12: If the government decides to continue the implementation of the full-day kindergarten program, then the Commission recommends delaying full implementation from 2014–15 to 2017–18 and reducing program costs by adopting a more affordable staffing model, involving one teacher for about 20 students, rather than a teacher and an early childhood educator for 26 students, to help moderate salary expenditures for the program by about $200 million. The government should not confirm full implementation of the program without assurances from school boards, teacher federations and support-staff unions that negotiated annual wage increases by 2017–18 will not be higher than the current trends in the broader public sector, and that the class-size increases and reductions in non-teaching staff contemplated by the Commission by 2017–18 will be achieved.

Recommendation 6-13: Set the cap in class size for primary grades at 23 and eliminate the other requirement that 90 per cent of classes must be at 20 or fewer, and increase the averages in junior/intermediate class sizes from 24.5 to 26 and secondary class sizes from 22 to 24.

Recommendation 6-14: The province should cap the funding of high school credits to 32 successful credits per student, and amend the Education Act to give the power to school boards to charge a modest fee, set by the province, for each additional credit above the 32 successfully completed credit threshold.

Recommendation 6-15: The province should immediately lift the moratorium on the competitive procurement requirement for student transportation, so that competitive bids are used for the 2012–13 school year.

Recommendation 6-16: The province should amend the Education Act to give school boards the power to charge a modest transportation user fee set by the province.

Recommendation 6-17: Education stakeholders should build on the climate of trust and evidence-based decision-making fostered since 2003 to begin a constructive dialogue on how best to find the savings needed to meet student achievement objectives while holding annual spending growth to one per cent. To help stakeholders, the Commission believes the following measures should be phased in progressively over the next six years, in this priority sequence:

- Reduce by 25 per cent the per-pupil funding for textbooks and learning materials, classroom supplies and computers;
- Increase the average class size from 22 to 24 in Grades 9 to 12;
- Set the cap in class size at 23 in primary grades and eliminate the other requirement that 90 per cent of classes must be at 20 or fewer;
- Increase the average class size from 24.5 to 26 in Grades 4 to 8 by 2017–18;
- Eliminate 70 per cent of the 13,800 additional non-teaching positions created in school boards since 2002–03; and
- Reduce by 25 per cent the funding for capital renewal and student transportation.

Recommendation 6-18: The province should review its special education programs and the results they have achieved, including both "section" programs for students in care, custody or treatment, and hospital boards, with the aim of ensuring that funding is being used effectively to improve student outcomes.

Recommendation 6-19: The government should close the Demonstration Schools and reinvest savings to expand alternative secondary school programs in school boards.
The three Schools for the Deaf in Belleville, London and Milton should be consolidated into one site to achieve a greater critical mass of students from primary grades through secondary school. Savings should be reinvested in the consolidated school for the deaf and in enhanced opportunities for deaf learners in school boards, colleges and universities. The Ministry of Education should transfer the oversight and management of the Brantford site and of the newly consolidated school for the deaf to one or two English-language school boards, and transfer the oversight and management of the Centre Jules-Léger (School for the Deaf) to a French-language school board.

Recommendation 6-20: The added value of training programs leading to additional qualification should be reviewed, and decisions regarding the granting of qualifications and experience should be made by a body that is independent of teacher federations and school boards.

Recommendation 6-21: The province should be able to exercise legislative and regulatory authority to require that teachers have a minimum number of years of full-time teaching experience before they are allowed to attempt an additional qualification. While they could decide to make contractual arrangements with faculties of education or other service providers, school boards should ultimately have direct oversight of the content of additional qualification courses. The design of such courses should be reviewed in tandem with the new curriculum for the two-year teacher education program in Ontario. Both should be more rigorous and evidence-based, and focused on those aspects of their work that lead to improved student outcomes.

Recommendation 6-22: In the upcoming renewal of collective agreements, school boards should negotiate the removal of entitlements associated with retirement gratuities to help offset the costs of future economic adjustments. School boards’ power in the Education Act to offer retirement gratuities should be removed.

Recommendation 6-23: The government should work with school boards, teacher federations and support-staff unions to investigate mechanisms involving shared ownership and administration of benefit programs in the education sector.

Recommendation 6-24: The government should amend the Education Act to give power to the minister to order the sale of closed schools or other unused properties, especially when such dispositions could meet other needs in the broader public sector.

Recommendation 6-25: The province should no longer provide top-up funding to underutilized secondary schools if these schools could instead accommodate some or all of the Grade 7 and 8 students in their catchment area.

Recommendation 6-26: To mitigate further increases, the province should, in future discussions with the Ontario Teachers' Federation, reject further employer rate increases to the Teachers' Pension Plan beyond the current rate, and instead examine which benefits could be reduced prospectively to make the Plan more affordable and benchmark any changes to the provisions contained in other plans.

Recommendation 6-27: The government should work in a co-ordinated fashion to discuss supply planning and, in particular, the overproduction of teachers, with Ontario's 13 universities offering teacher education programs. Attempts should be made to direct teacher education spaces to areas of greater need, especially in light of the staffing changes contemplated by the Commission between now and 2017–18.

Chapter 7: Post-Secondary Education

Recommendation 7-1: Grow government funding for the post-secondary education sector by 1.5 per cent per year until 2017–18.

Recommendation 7-2: Work with post-secondary institutions to reduce bargained compensation increases, where they exist, and instead align them with trends in more recent settlements in the broader public sector; a rigorous performance system should also be introduced to guide compensation, where one is not already in place.

Recommendation 7-3: If capital budgets are constrained, post-secondary institutions should consider using alternative financing and procurement, especially for buildings that do not qualify for government funding, such as residences.

Recommendation 7-4: By 2012–13, establish multi-year mandate agreements with universities and colleges that provide more differentiation and minimize duplication; these should be implemented beginning in 2013–14.

Recommendation 7-5: Institute a process for establishing mandate agreements using a review by either a blue-ribbon panel or the Higher Education Quality Council of Ontario to ensure the highest-quality programs are funded to grow and expand. This should be completed in the 2012–13 fiscal year and must be transparent for the institutions and the public.

Recommendation 7-6: Establish and implement a rational and strategic division of roles between the college and university systems.

Recommendation 7-7: Create a comprehensive, enforceable credit recognition system between and among universities and colleges. This is an absolutely essential feature of differentiation.

Recommendation 7-8: Post-secondary institutions need to devote more resources to experiential learning such as internships; allow for more independent or self-assigned study; develop problem-based learning modules; and increase study abroad and international experiences. Many institutions already incorporate these features into their programs, funding them from within existing portfolios.

Recommendation 7-9: Encourage universities that do not presently have flexible provisions regarding teaching and research workloads in their collective agreements with faculty to consider such provisions in future bargaining. While each university must conduct teaching and research, top-performing teachers and researchers should be recognized with the appropriate workloads and rewards.

Recommendation 7-10: Have post-secondary institutions redesign incentive systems to reward excellent teachers, as is currently done for researchers.

Recommendation 7-11: Link further provincial funding allocations to quality objectives, which will encourage post-secondary institutions to be more responsive. In addition, the province should alter the funding model to also reward degrees awarded, rather than just enrolment levels.

Recommendation 7-12: Government and post-secondary institutions must measure learning outcomes; that is, the value added through education, not just whether a person graduates.

Recommendation 7-13: Enhance performance measures in multi-year accountability agreements with post-secondary institutions through the use of teacher performance scores and student satisfaction ratings where the primary reasons for dissatisfaction are adequately captured.

Recommendation 7-14: Work with private career colleges to collect and publish the same performance indicators as public colleges and universities. Private career colleges should bear the cost of such reporting.

Recommendation 7-15: As a part of the mandate agreements with post-secondary institutions, tie outcome quality indicators to funding.

Recommendation 7-16: Evaluate the research funding system of post-secondary institutions and research hospitals as a whole, including how it is affecting university and hospital budgeting practices.

Recommendation 7-17: Award provincial research funding more strategically and manage it more efficiently. Consolidating and offering a single-window approach for access and reporting through an online portal will greatly improve efficiency and reduce paperwork, both for government and for post-secondary institutions.

Recommendation 7-18: Maintain the existing tuition framework, which allows annual tuition increases of five per cent. However, simplify the design to maintain the overall ceiling but allow institutions greater flexibility to adjust tuition fees at the program level, within the ceiling.

Recommendation 7-19: Maintain the Ontario Student Access Guarantee, which represents 10 per cent of additional tuition revenue that institutions are required to set aside to fund bursaries and other student assistance programs.

Recommendation 7-20: Reshape student financial assistance provided by both the federal and provincial governments, including the newly announced 30% Off Ontario Tuition grant, to target more of the assistance to low-income students whose access is most likely to be compromised by financial obstacles and broaden the approach to improving access to post-secondary education.

Recommendation 7-21: Explore phasing out provincial tuition and education tax credits to invest in upfront grants.

Recommendation 7-22: Streamline student financial assistance by decoupling loans and grants. Eligibility for grants should not be contingent on loan applications.

Recommendation 7-23: Harmonize the variety of scholarships, grants and other assistance programs that the government offers, into already-existing programs of a similar nature, across post-secondary institutions.

Recommendation 7-24: Lower the current 25 per cent Ontario Student Assistance Program default-rate threshold for triggering cost-sharing to 20 per cent for all post-secondary institutions in Ontario and work with institutions towards the objective of setting a still-lower threshold in future.

Recommendation 7-25: Extend the review period for Ontario Student Assistance Program default rates, which are now measured roughly two years after borrowers start repaying.

Recommendation 7-26: Have the post-secondary sector leverage its existing collective purchasing capacity through the Ontario Education Collaborative Marketplace and regional buying groups.

Recommendation 7-27: Establish a single pension fund administrator for all university and college pensions, while recognizing differences in pensions.

Recommendation 7-28: Before new capital spaces are approved, require universities and colleges to demonstrate increased use of space and consider year-round optimization of existing spaces. Priority should be given to the deferred maintenance in the current capital stock before new capital projects.

Recommendation 7-29: Compel post-secondary institutions to examine whether they can compress some four-year degrees into three years by continuing throughout the summer.

Recommendation 7-30: Cease funding for international marketing of Ontario’s universities and integrate it into existing trade mission activities. Universities, colleges and the federal government already invest in these activities.

Chapter 8: Social Programs

Recommendation 8-1: Hold growth in social programs spending to 0.5 per cent per year.

Recommendation 8-2: Move aggressively towards a fully integrated benefits system that simplifies client access, improves client outcomes and improves fiscal sustainability through greater program effectiveness and reduced administrative costs.

Recommendation 8-3: A fully integrated benefits system should seek efficiencies by, at a minimum, centralizing income testing and payment delivery; automating the processing of applications, eligibility and payments; automating income verification; consolidating program delivery; and standardizing eligibility criteria.

Recommendation 8-4: Collect the information necessary to deliver and evaluate a fully integrated benefits system. In doing so, continue to respect and protect personal information and privacy.

Recommendation 8-5: The Commission for the Review of Social Assistance in Ontario should examine system design options that deliver a more efficient and higher-quality service to social assistance recipients. This examination should consider combining Ontario Works and the Ontario Disability Support Program, and having the combined program delivered at the local level. It should also address the further integration of employment services available through Employment Ontario.

Recommendation 8-6: Undertake a thorough initial assessment of new entrants into social assistance to identify the degree of intervention required to help them return to the labour market. Triage new entrants to appropriate supports according to this assessment.

Recommendation 8-7: Streamline and integrate other employment and training services with Employment Ontario, including the bulk of the employment and training service component of social assistance, in a carefully sequenced manner.

Recommendation 8-8: Prepare and support people with disabilities who are entering the workplace. Work with employers and fellow employees to properly understand and accommodate the specific needs of the individual in the workplace.

Recommendation 8-9: Advocate for federal reforms in two key areas:

- Work with other provinces and the federal government to establish a national income-support program for people with disabilities who are unlikely to re-enter the workforce.
- Implement the final recommendations of the Mowat Centre Employment Insurance Task Force.

Recommendation 8-10: If growth in expenditures for social programs is contained below the 0.5 per cent annual growth rate, reinvest savings into social assistance, with priority given to:

- Increasing asset limits for social assistance qualification;
- Tying specific benefits (beginning with the Ontario Drug Benefit program) to income levels rather than to social assistance status to help tear down the "welfare wall"; and
- If funds remain, raising basic needs and shelter amounts.

Recommendation 8-11: Continue implementing reforms to child welfare proposed by the Commission to Promote Sustainable Child Welfare. This must include building on reforms to Children's Aid Societies, implementing an outcome-based accountability structure and strengthening links between the child welfare sector and services in other sectors, such as education, post-secondary education, and employment and training services.

Recommendation 8-12: In light of the Commission's recommendation to reinvest savings achieved by holding the increase of social program spending below the recommended 0.5 per cent annual growth rate into specific social assistance reforms, the government should retain the current maximum level of the Ontario Child Benefit.

Recommendation 8-13: Reconfigure child and youth mental health services to consolidate agencies and improve service delivery and integration both within the sector itself and with other sectors such as children's services, health, education and youth justice.

Recommendation 8-14: Integrate children's services to enhance early identification and intervention.

Recommendation 8-15: Move towards consolidating developmental services funding for community-based support programs into a single direct funding program.

Recommendation 8-16: Reduce excess capacity in the youth justice system through strategic closures of facilities.

Recommendation 8-17: Reform funding practices in the non-profit sector to increase flexibility and reduce administrative costs by focusing on measuring outcomes rather than inputs.

Recommendation 8-18: Provide a single point of access within government for the non-profit sector to improve and broaden relationships across ministries that enter into contracts with the non-profit sector, using a model such as the Open for Business initiative.

Recommendation 8-19: Undertake pilot projects using social impact bonds across a range of applications.

Chapter 9: Employment and Training Services

Recommendation 9-1: Focus the efforts of Employment Ontario on clients who need complex interventions. Streamline clients requiring modest intervention to low-cost, self-serve resources as efficiently as possible.

Recommendation 9-2: Streamline and integrate other employment and training services with Employment Ontario, including the bulk of the employment and training service component of social assistance and integration and settlement services for newcomers, in a carefully sequenced manner.

Recommendation 9-3: Advocate for a comprehensive training agreement to replace the patchwork of federal-provincial employment and training funding agreements currently in place, many of which are about to expire, with a single arrangement.

Recommendation 9-4: Tie employment and training programs more explicitly to measured outcomes. Data collection must in turn be improved.

Recommendation 9-5: Advocate for the collection of sub-provincial data in all future federal surveys on labour vacancies. Leverage labour vacancy data to inform employment and training program design and delivery.

Recommendation 9-6: Transfer responsibility for Workforce Planning Boards to the Ministry of Training, Colleges and Universities' regional offices to develop stronger local linkages and broaden community and regional planning for economic development.

Recommendation 9-7: Direct Workforce Planning Boards to encourage employers to increase investments in workplace-based training.

Recommendation 9-8: Develop a labour-market policy framework to link planning for employment and training services more strongly to economic development initiatives led by ministries such as Economic Development and Innovation; Agriculture, Food and Rural Affairs; and Northern Development and Mines.

Recommendation 9-9: Shift the responsibility for all apprenticeship administration to other actors in the sector. Functions related to the administration of apprenticeship classroom training should be given to colleges and union training centres. All other administrative responsibilities for apprenticeships should be transferred to the College of Trades over time.

Chapter 10: Immigration

Recommendation 10-1: Develop a position on immigration policies that is in the province's best economic and social interests. Present this position to the federal government with the expectation that, as the largest recipient of immigrants in Canada, Ontario's interest will be given considerable weight in federal policy development.

Recommendation 10-2: Catalyze national discussions on immigration policy as the successful integration of immigrants is critical for Canada's and Ontario's economic futures.

Recommendation 10-3: Advocate the federal government for a greater provincial role in immigrant selection to ensure that the level and mix of immigrants coming to Ontario is optimized to support economic prosperity and improve outcomes for immigrants. Barring success, advocate for an expanded Provincial Nominee Program.

Recommendation 10-4: Press the federal government to be more transparent in its refugee policies and practices and to compensate Ontario for the costs of providing additional social supports to refugees and refugee claimants.

Recommendation 10-5: Advocate for the federal government to undertake a pilot program equivalent to Australia's pre-application skills assessment.

Recommendation 10-6: Streamline and integrate provincially delivered integration and settlement services for recent immigrants with Employment Ontario.

Recommendation 10-7: Advocate for devolving federal immigrant settlement and training programs to the province with an appropriate funding mechanism, similar to those established in British Columbia and Manitoba.

Chapter 11: Business Support

Recommendation 11-1: Government needs to publish an “economic vision” for Ontario.

Recommendation 11-2: Expand government reviews of direct business support programs and tax expenditures to include supports such as business services, procurement, and publicly funded research and development.

Recommendation 11-3: Refocus the mandate of business support programs from job creation to productivity growth in the private sector.

Recommendation 11-4: Starting in 2012–13, make ministries responsible and accountable for tax expenditures that align with their respective program areas. Ministries should initially be provided with the means to fund the tax expenditures (i.e., a net zero impact for the ministries), but after that they will have to manage the pooled envelope of tax expenditures and direct business support programs to meet budgetary targets.

Recommendation 11-5: Introduce a new funding model that encourages efficiency and harmonizes efforts across ministries. We propose that money for both direct and indirect business support programs, including refundable tax credits, should be pooled into a single funding envelope.

Recommendation 11-6: Sunset all current direct business support programs in 2012–13. After accounting for legal commitments and legacy projects, as well as the 2017–18 deficit reduction target, pool the remaining funds and tax expenditures into a single envelope used to fund business support programs submitted by ministries. These programs must align with the productivity focus of the government economic development policy and meet rigorous design criteria.

Recommendation 11-7: Follow the Public Sector Accounting Board (PSAB) recommendation to report transfers through the tax system as expenses, and adopt the PSAB standard for tax revenue beginning with the *2012 Ontario Budget*. In 2011, Ontario provided refundable business tax credits (tax credits that are “refunded” or paid out, even if no tax is payable) totalling $723 million to three main areas: media industries, research and development, and apprenticeship and co-op student training. Many of these tax credits overlap with the objectives of direct business support programs, and all should be subjected to the same degree of scrutiny as program spending. Further gains could be achieved by making the tax system more neutral, removing special preferences that favour some business activities over others, and better aligning refundable corporate income tax credits with direct business support programs.

Recommendation 11-8: Introduce legislation to sunset all current refundable corporate income tax (CIT) credits in 2012–13 as part of the government's tax expenditure review. Add refundable CIT credits that demonstrate effectiveness and administrative efficiency into the single envelope used to fund business support programs, and include revenue forgone from those tax credits in the funding allocation of an appropriate ministry.

Recommendation 11-9: Restrict the Ontario small business deduction (SBD) for large Canadian-controlled private corporations by paralleling the federal business limit reduction, and include the Ontario SBD in the review of tax expenditures for effectiveness and administrative efficiency.

Recommendation 11-10: Work with the federal government to ensure that tax expenditures outside of Ontario's control maximize value for money and directly support economic growth in Ontario.

Recommendation 11-11: Review and rationalize the current provincial financial support provided to the horse racing industry so that the industry is more appropriately sustained by the wagering revenues it generates rather than through subsidies or their preferential treatments.

Recommendation 11-12: Eliminate the Ontario resource tax credit and review the mining tax system to ensure that the province is supporting the exploration and production of minerals in Ontario while receiving a fair return on its natural resources.

Recommendation 11-13: Establish a more user-friendly, "one-window" portal where clients can have seamless access to information about all business support and other economic development programs provided by all ministries, and be able to make online transactions such as applications, approvals, and financial and other types of reports.

Recommendation 11-14: Establish single, shared "back-office" support for all ministries in the delivery of their business support programs, including contract administration, payment processing, expenditure tracking, client contacts, project milestones and outcomes.

Recommendation 11-15: Establish a four-year sunset rule for all future business support programs. Extend only programs that have demonstrated their merit through a mandatory, comprehensive evaluation in the third year of operation — and end all others.

Recommendation 11-16: Publish an annual list of direct business support programs, tax expenditures and related annual spending. In addition, a list of companies receiving direct financial support from the government, including total amount received, should be published.

Chapter 12: Infrastructure, Real Estate and Electricity

Recommendation 12-1: Place more emphasis on achieving greater value from existing assets in asset management plan reporting requirements than is currently proposed in the Long-Term Infrastructure Plan for certain organizations (e.g., universities, municipalities, etc.).

Recommendation 12-2: Implement full cost pricing for water and wastewater services.

Recommendation 12-3: Where gaps in information and evidence exist, review the roles and operations of public and private mass transit service providers in the Greater Toronto and Hamilton Area and services provided by Ontario Northland Transportation Commission in the north to find efficiencies in those regions' transportation networks. Act on that evidence to improve the efficiency of those services.

Recommendation 12-4: Following the precedent set by the Toronto Transit Commission, begin charging for parking at GO Transit parking lots.

Recommendation 12-5: Pursue a national transit strategy with the federal government, other provinces and municipalities.

Recommendation 12-6: Engage citizens in an open, public dialogue on how best to create new revenue sources for future transportation capital needs.

Recommendation 12-7: Subject ministries to market prices for the use of government real estate.

Recommendation 12-8: Consolidate the real estate and accommodation function now resting in line ministries and locate it centrally at the Ministry of Infrastructure.

Recommendation 12-9: Develop a strategic plan for the province's real estate portfolio that adopts market principles for the acquisition, disposition, use and investment in real estate.

Recommendation 12-10: Eliminate the Ontario Clean Energy Benefit as quickly as possible.

Recommendation 12-11: Review all other energy subsidy programs against measures of value for money and achievement of specific policy goals.

Recommendation 12-12: Produce an Integrated Power System Plan built on the foundation of the province's Long-Term Energy Plan.

Recommendation 12-13: Consolidate Ontario's 80 local distribution companies along regional lines to create economies of scale.

Recommendation 12-14: As part of the review of the feed-in tariff (FIT) program, take steps to mitigate its impact on electricity prices by:

- Lowering the initial prices offered in the FIT contract and introducing degression rates that reduce the tariff over time to encourage innovation and discourage any reliance on public subsidies; and
- Making better use of "off-ramps" built into existing contracts.

Recommendation 12-15: Procure larger generation facilities through a request for proposal process.

Recommendation 12-16: Review the roles of various electricity sector agencies to identify areas for economies in administration. This could include investigating the potential to co-ordinate back-office functions.

Recommendation 12-17: Make wholesale electricity prices inclusive of transmission costs such as capacity limitations and congestion as part of a comprehensive restructuring of the wholesale electricity market.

Recommendation 12-18: Make regulated prices more reflective of wholesale prices by increasing the on-peak to off-peak price ratio of time-of-use pricing and by making critical peak pricing available on an opt-in basis.

Recommendation 12-19: Co-ordinate a comprehensive, proactive electricity education strategy across sector participants that at a minimum covers:

- Ontario's electricity resources including nuclear, hydroelectric, thermal and renewable generation;
- The role and value of electricity import and export markets;
- Roles and responsibilities of the various entities operating in the electricity sector;
- The evolving role of the electricity ratepayer in the smart grid paradigm; and
- Electricity prices — what drives them, how they are communicated and how they are best responded to.

Recommendation 12-20: Strategically promote Ontario's strengths in the energy sector, capitalizing on export opportunities for domestic goods and services.

Chapter 13: Environment and Natural Resources

Recommendation 13-1: Move towards full cost recovery and user-pay models for environmental programs and services.

Recommendation 13-2: Rationalize roles and responsibilities for environmental protections that are currently shared across levels of government.

Recommendation 13-3: Employ a risk-based approach for environmental approvals that focuses on improving outcomes and prevention.

Recommendation 13-4: Review opportunities to further streamline the environmental assessment process, such as co-ordinating further with the federal government's process or integrating it with certain approvals.

Recommendation 13-5: Place greater emphasis on prevention and the polluter-pay principle for contaminated sites using appropriate financial tools, such as financial assurance.

Recommendation 13-6: Review the effectiveness of the current governance structure of the Ontario Clean Water Agency to evaluate the merits of restructuring it as a for-profit, wholly owned government entity.

Recommendation 13-7: Rationalize and consolidate the entities and agencies involved in land use planning and resources management.

Recommendation 13-8: Ensure that the government's approach to the Ring of Fire maximizes opportunities for Aboriginal Peoples and all Ontarians.

Chapter 14: Justice Sector

Recommendation 14-1: Improve evidence-based data collection in the justice sector to achieve better outcomes in sector programs.

Recommendation 14-2: Increase use of the Justice On Target program to assist with the reduction of custody remand, and implement evidence-based approaches to increase efficiency in the field of family law and family courts.

Recommendation 14-3: Expand diversion programs for low-risk, non-violent offenders with mental illness as an alternative to incarceration.

Recommendation 14-4: Review the core responsibilities of police to eliminate their use for non-core duties. This review would include an examination of alternative models of police service delivery. Criteria for the review would include determining the relative costs of the various security providers and an evaluation of their respective comparative advantages.

Recommendation 14-5: Use alternative service delivery for the delivery of non-core services within correctional facilities, where it is feasible.

Recommendation 14-6: Continue the process of clustering adjudicative tribunals across the Ontario Public Service.

Recommendation 14-7: Examine integration opportunities and consolidate where possible public safety training in policing, fire services and correctional services, which are currently delivered individually through their respective colleges.

Recommendation 14-8: Have the justice sector continue to work with Infrastructure Ontario to use alternative financing and procurement to assist in replenishing its capital infrastructure.

Recommendation 14-9: Improve co-ordination between federal and provincial governments in areas such as justice policy and legislation, law enforcement and correctional services.

Recommendation 14-10: Negotiate the transfer of responsibility for incarceration for sentences longer than six months to the federal government.

Chapter 15: Labour Relations and Compensation

Recommendation 15-1: Establish an independent working group to consider and determine which broader public-sector occupations and industries should be deemed as providing essential services, the appropriate essential-worker designation process, and the appropriate form of dispute resolution mechanism for broader public-sector industries and occupations.

Recommendation 15-2: Establish the overall principles/outcomes necessary for reform to the interest arbitration process going forward.

Recommendation 15-3: The normal course of an arbitration process should begin with mediation, prior to arbitration, to attempt to arrive at a negotiated settlement between the parties.

Recommendation 15-4: The arbitration system needs to be shifted in favour of more objective analysis, based on objective criteria, and supported by systematic data and research.

Recommendation 15-5: Provide zero budget increase for wage costs in the Ontario government so any increases must be accounted for within the respective growth rates recommended in this report.

Recommendation 15-6: Bumping provisions (i.e., seniority) in collective agreements are unduly impeding the move towards a progressive and efficient public service. The government needs to work with bargaining agents and employers to explore options for modifying these provisions and monitor progress towards fixing this problem.

Recommendation 15-7: Do not let concerns about successor rights in the broader public sector stop privatizations or amalgamations that make sense and are critical to successful reform. Inherited agreements do not live forever; provisions can be accepted initially and bargained differently when they come up for renewal.

Recommendation 15-8: Consider expanding the authority of the Ontario Labour Relations Board to facilitate the establishment of effective and rationalized bargaining structures that support the delivery of quality and effective public services.

Recommendation 15-9: Further rationalize bargaining, while recognizing that multiple models of rationalized bargaining exist (e.g., centralized, co-ordinated, legislated, voluntary). Work collaboratively with broader public-sector employers and bargaining agents to determine the most appropriate model on a sector-by-sector basis.

Recommendation 15-10: The government should facilitate a voluntary movement to centralized bargaining for municipalities — particularly in relation to police and firefighting bargaining.

Recommendation 15-11: Establish a Labour Relations Information Bureau to collect and disseminate the range of data and information relevant to employers and unions in the broader public sector in their negotiations, and identify data and other information/knowledge gaps. Of particular importance is developing data and measures of productivity.

Recommendation 15-12: Introduce a comprehensive and transparent benchmarking system for Ontario Public Service and broader public-sector compensation, which would include a costing of the full compensation package, including benefits, pensions and moving through "grids" with seniority.

Recommendation 15-13: Ensure that leaders in the Ontario Public Service and broader public sector are held to account and that they are adequately compensated and encouraged through incentives to lead and excel.

Recommendation 15-14: Ensure that the job descriptions and collective agreement provisions defining management's ability to organize work are flexible enough to allow for the movement of people to ensure that the best people are in the right places at the right time.

Recommendation 15-15: Provide a better sense of expectations and objectives for each program, how those fit into the broader public policy thrust, and communicate those expectations to the broader public sector.

Chapter 16: Operating and Back-Office Expenditures

Recommendation 16-1: Expand the services ServiceOntario delivers. This includes pursuing additional partnerships for service delivery within the Ontario Public Service, and furthering service delivery partnerships with municipal and federal levels of government.

Recommendation 16-2: The government should direct clients to more convenient and less expensive channels, such as online service delivery for birth registration.

Recommendation 16-3: ServiceOntario should optimize current virtual processes.

Recommendation 16-4: The government needs to increase ServiceOntario's current annual $2 million capital budget.

Recommendation 16-5: Savings from efficiency gains in ServiceOntario operations should be used to generate a fiscal dividend.

Recommendation 16-6: Where possible, private-sector participation should be used to move ServiceOntario further towards a full cost recovery model.

Recommendation 16-7: The government should review existing agency mandates and functions to determine if greater efficiencies could be achieved through rationalization or consolidation of programs, delivery through existing ministry resources, or the outright elimination of functions.

Recommendation 16-8: Where there is an existing non-tax revenue stream or where such a revenue stream can be created, strong consideration should be given to transferring or establishing responsibility for direct delivery to an arm's-length, not-for-profit corporation, under the Delegated Administrative Authorities or similar model.

Recommendation 16-9: Consideration should be given to rationalizing and consolidating programs that regulate inter-related sectors or that could otherwise gain efficiencies from greater integration.

Recommendation 16-10: The government should shift its service delivery of information and information technology (I&IT) from in-house to external sources, where feasible.

Recommendation 16-11: The government should ask the Ontario Auditor General to help find an appropriate balance between ensuring accountability and continuing oversight of compliance with rules and regulations.

Recommendation 16-12: At a minimum, the government should allow principles of efficiency to drive accountability programs, such as switching from individually tracked expenses to a per diem for civil servants and consultants, as is done by the federal government.

Recommendation 16-13: Selected shared services should be expanded to agencies, boards and commissions and the broader public sector.

Recommendation 16-14: The government should consolidate information and information technology (I&IT) services throughout the broader public sector.

Recommendation 16-15: Significant savings and efficiencies can be achieved by further co-ordinating existing horizontal supply chains across the broader public sector.

Recommendation 16-16: The province should take a direct leadership role in using core provincial infrastructure and expertise to foster shared services across the broader public sector. Significant economies of scale can be created through common shared services foundations, applications, resources and expertise.

Recommendation 16-17: Expand consolidation of maintenance and plant management practices already established in the Ontario Public Service into the broader public sector to create efficiencies.

Recommendation 16-18: The Ontario Public Service should develop an integrated transfer payment operation centre and an enterprise grant management system.

Recommendation 16-19: Consolidate back-office operations for grant programs or transfer payments with identical recipients.

Chapter 17: Government Business Enterprises

Recommendation 17-1: Do not partially or fully divest any or all of the province's government business enterprises — Ontario Lottery and Gaming Corporation, Liquor Control Board of Ontario, Ontario Power Generation and Hydro One — unless the net, long-term benefit to Ontario is considerable and can be clearly demonstrated through comprehensive analysis.

Recommendation 17-2: While continuing to promote socially responsible consumption, undertake initiatives to enhance the Liquor Control Board of Ontario's profits, including:

- Direct it to use its purchasing power more effectively and improve its markup structure for setting retail prices;
- Continually compare the merits of providing supports to Ontario producers against desired policy outcomes; and
- More aggressively pursue store expansion.

Recommendation 17-3: Improve the Ontario Lottery and Gaming Corporation's efficiency through, at a minimum, the following measures:

- Close one of the two head offices;
- Close one of the two casinos in Niagara Falls;
- Allow slot machine operations at sites that are not co-located with horse racing venues; and
- Stop subsidizing the purchase and provision of lottery terminals to point-of-sale locations and begin to introduce other points of sale for lotteries.

Recommendation 17-4: Re-evaluate, on a value-for-money basis, the practice of providing a portion of net slot revenues to the horse racing and breeding industry and municipalities in order to substantially reduce and better target that support.

Recommendation 17-5: Consider directing the Ontario Lottery and Gaming Corporation to expand its existing business lines, develop new gaming opportunities and make effective use of private-sector involvement.

Recommendation 17-6: The government should avoid intervening in Ontario Power Generation or Hydro One's rate filings for the purpose of delaying short-term price increases; too often this leads to greater costs down the road. When regulations or directives are required that impinge on normal utility business practices, the policy objectives being sought must be transparent.

Recommendation 17-7: The government should seek and achieve efficiencies within the operations of Ontario Power Generation and Hydro One through means such as strategic partnerships.

Recommendation 17-8: Each government business enterprise must continue to build on its industry's best practices to improve its operational efficiency. Each should revisit memorandums of understanding and other agreements to ensure that they reflect commercial mandates. And each should undergo peer ranking and benchmarking on the basis of financial and other metrics both to better understand the organization's relative performance and find efficiencies.

Chapter 18: Revenue Integrity

Recommendation 18-1: Work with the federal government to ensure that a fair share of a company's worldwide income is allocated to Canada and the provinces.

Recommendation 18-2: Work with the federal government to address aggressive interprovincial and international tax avoidance activities by:

- Undertaking additional data review and research to identify activities of particular concern to Ontario;
- Entering into an agreement with the Canada Revenue Agency to invest resources in additional compliance efforts; and
- Implementing additional reporting requirements that disclose activities that cause income and losses to be allocated to a province where the underlying economic activity was minimal or did not occur.

Recommendation 18-3: Collaborate with the federal government and other provinces to investigate options to tax corporations on a consolidated basis, with the purpose of ensuring a fair allocation of losses and income across Canada.

Recommendation 18-4: Enhance Ontario's ability to detect and recover revenues from underground economic activity by linking more databases to reported transactions for tax purposes.

Recommendation 18-5: Review the adoption of government-authorized sales-recording modules in certain sectors (e.g., food services) to address "zapper" software (zappers remove a vendor's record of sale).

Recommendation 18-6: Develop a concept of self-certification of electronic point-of-sales (ePOS) software. The self-certification is based on the principle of tax authorities developing and publishing a set of requirements for accounting software and ePOS systems.

Recommendation 18-7: Develop a public awareness campaign on the impact of the underground economy. For example, by using unregistered contractors or contractors who do not issue receipts, there are risks of not obtaining a warranty for repairs, risks of not being able to seek legal remedy for poor workmanship, and risks of liability for injuries or damages that occur on a customer's premises.

Recommendation 18-8: Create employee deeming provisions where businesses substitute independent contractors for employees to avoid paying Ontario's Employer Health Tax.

Recommendation 18-9: Establish a forum to discuss emerging issues and trends in the underground economy as well as innovations and best practices for addressing them. The forum should include representatives from various ministries, and federal and municipal governments as well as industry associations.

Recommendation 18-10: The Ministry of Finance should take the lead by providing assistance to municipalities in developing policy for the collection of unpaid Provincial Offences Act fines in the province.

Recommendation 18-11: Use licence and registration suspensions as a tool to facilitate the collection of Provincial Offences Act fines related to vehicles, including parking, speeding and automobile insurance violations.

Recommendation 18-12: Allow fines to be added via the property tax roll by adding Provincial Offences Act fines to the offender's property tax bill, even if the property is jointly owned.

Recommendation 18-13: Offset tax refunds against unpaid Provincial Offences Act fines.

Recommendation 18-14: Require that recipients of government grants or refundable tax credits, contracts, loans and loan guarantees are first in good standing with the government in terms of accounts receivable and have no outstanding taxes due before providing assistance.

Recommendation 18-15: Require that all ministries record Crown debt receivables in the enterprise financial system so that collection action can be commenced in a timely fashion.

Recommendation 18-16: Proceed with the *2011 Ontario Budget* proposals by moving to rationalize the collection of non-tax revenue between Ontario Shared Services and the Ministry of Finance with the intent to consolidate, in a staged fashion, all non-tax and tax collection functions into the Ministry of Finance.

Recommendation 18-17: Develop a legislative framework to provide the Ministry of Finance with the authority to collect all provincial Crown debts and incorporate more effective collections tools and mechanisms.

Recommendation 18-18: Develop standard policies and practices across the Ontario Public Service for collections to ensure the optimum return for dollars spent.

Recommendation 18-19: Work with the Office of the Information and Privacy Commissioner of Ontario to ensure the protection of privacy in the implementation of these proposals.

Recommendation 18-20: Improve methods for information gathering and sharing across government, including making greater use of the Regulatory Modernization Act, in order to identify emerging and current issues to improve responsiveness in a compliance environment.

Recommendation 18-21: Use the Ministry of Finance's risk assessment technology to better focus enterprise-wide audit activity on areas where rates of return are highest for the province.

Recommendation 18-22: Implement measures to better co-ordinate and consolidate government audits of companies within the Ministry of Finance to recover funds on behalf of the province.

Recommendation 18-23: Develop risk assessment approaches with other jurisdictions to help address audit issues that cross provincial and international boundaries.

Recommendation 18-24: Instead of user fees remaining in fixed nominal terms, they should be updated using a blend of full cost recovery and indexation and be phased in over the next two years.

Recommendation 18-25: Conduct a review of education tax rate-setting policies for residential and business tax rates to maintain a stable level of education tax revenues in real terms.

Recommendation 18-26: Continue to implement the business education tax (BET) reduction plan while considering options for adjusting the plan in order to avoid part or all of the revenue loss associated with reducing high BET rates by also increasing low BET rates.

Recommendation 18-27: Build on the existing business education tax (BET) reduction plan to address historical BET rate inequities and distortions by gradually implementing a single uniform BET rate.

Recommendation 18-28: Further develop and implement results-focused strategies to deter illegal tobacco, including enforcing existing laws and developing new partnerships and legislative and regulatory tools.

Recommendation 18-29: Replace taxes tied to a good's volume with taxes tied to the good's value (i.e., replace specific taxes with *ad valorem* taxes or otherwise capture changes in values).

Chapter 19: Liability Management

Recommendation 19-1: General risks can and should be handled through the contingency reserve, which should be set higher than in recent budgets and should grow over time to address the possibility of growth rate biases in the revenue projection. Modest internal risks should be addressed through an operating reserve. The contingency reserve should be increased to cover a 0.2 percentage point annual overestimate of revenue growth.

Recommendation 19-2: Specific risks should be addressed through an explicit strategy. Care should be taken in budget-setting processes to diligently identify any known risks of significant fiscal magnitude, and a strategy developed to mitigate those risks.

Recommendation 19-3: We recommend that the province either terminate the Pension Benefits Guarantee Fund or explore the possibility of transferring it to a private insurer. The Fund is no longer sustainable in its current form as it presents a large fiscal risk for the province in the event of another economic downturn.

Recommendation 19-4: The Ontario government should conduct and publish its own liability management assessment of the public-sector pension plans and develop plans to contain any fiscal risks identified.

Recommendation 19-5: Clarify who bears the ultimate financial responsibility for funding deficits of the public-sector pension plans as the Commission encountered considerable confusion on this issue.

Recommendation 19-6: In the proposed liability management assessment report, the government should make public the current and prospective financial health of public-sector pension plans.

Recommendation 19-7: In the liability management assessment report, the government should test the fiscal health of the plans against the possibility of rates of return being higher or lower than assumed. This could be done using a higher or lower discount rate, or could rely on a probability distribution.

Recommendation 19-8: The government's objective, when faced with pension funding deficits, should be to reduce prospective benefits rather than increase the contribution rate beyond current levels. This would help to close the funding gap and reduce the accrual of pension benefits on a prospective basis, mitigating the impact on the fiscal plan. The government may need to consider legislative options, should negotiations with plan sponsors be unsuccessful.

Recommendation 19-9: The government should accelerate work on the design of public-sector benefits and make containing the growth in the cost of benefits part of the broader public-sector compensation negotiation strategy.

Recommendation 19-10: The province should examine opportunities to achieve savings and better investment returns through the consolidation of the administrative functions and investment pooling of pension plans across the broader public sector.

Recommendation 19-11: The province must make the government's cost of the public-sector pension plans — both in concept and in magnitude — much clearer in the *Public Accounts* and other financial statements, including the *Budget*.

Recommendation 19-12: To better protect the province against the costs of environmental cleanup, adjust the current legislative framework so that more focus is placed on the polluter-pays principle.

Recommendation 19-13: Work with the federal government to mitigate risks to the Ontario fiscal framework from federal policy changes. Known risks at the time include the Canada–European Union Free Trade Agreement being negotiated, proposed changes to personal income taxes and the federal omnibus crime bill (Bill C-10).

Recommendation 19-14: Ontario should negotiate with the federal government to commit to a housing framework for Canada that includes adequate, stable, long-term federal funding and encourages its housing partners and stakeholders, including municipal governments, to work with the federal government to secure this commitment.

Recommendation 19-15: Work with the municipal sector to mitigate risks to the Ontario fiscal framework by ensuring that commitments are adhered to. Known risks at this time include potential overruns in municipal infrastructure and the Pan Am Games.

Recommendation 19-16: Modify or eliminate the Taxpayer Protection Act so that both spending and taxes can be used as required to address threats to fiscal sustainability.

Chapter 20: Intergovernmental Relations

Recommendation 20-1: Establish an understanding with the federal government that actions taken at the federal level pose fiscal risks to Ontario.

Recommendation 20-2: Advocate strongly for reforming federal programs that are not working effectively in Ontario's interests.

Recommendation 20-3: Advocate for reforms to Equalization by, at a minimum, fully capturing resource revenues and accommodating differing price levels between provinces.

Recommendation 20-4: Simultaneously eliminate the Canada Social Transfer and transfer the equivalent tax points to the provinces.

Recommendation 20-5: Advocate for federal greenhouse gas mitigation programs to provide fair and equitable support for Ontario's clean energy initiatives.

Recommendation 20-6: Sort out areas of responsibility with the federal government where there is overlap and duplication and establish a more efficient economic and fiscal relationship that saves money and provides better services to citizens.

Recommendation 20-7: Extend the period of the final $500 million of upload by another two years, so it is not complete until 2020. For illustration, if we reach 2015's $232 million by 2017, that would save $165 million ($397 million minus $232 million).

Recommendation 20-8: Ensure that, beginning in 2013, the Ontario Municipal Partnership Fund (OMPF) declines to the planned $500 million by 2016. A reasonable assumption would be a $25 million decrease in each of the next four years beginning in 2013, resulting in a $500 million OMPF envelope in 2016.

Recommendation 20-9: The province and municipalities must work together to establish an accountability framework that would track how municipalities are investing the benefits realized as a result of the uploads.

Appendix 2: List of Acronyms

ABCs	agencies, boards and commissions
AFP	alternative financing and procurement
ALC	alternate level of care
AMAPCEO	Association of Management, Administrative and Professional Crown Employees of Ontario
AMO	Association of Municipalities of Ontario
ASD	Alternative Service Delivery
ATTC	Apprenticeship Training Tax Credit
BET	business education tax
BPS	broader public sector
CAAT	Colleges of Applied Arts and Technology Pension Plan
CCAC	Community Care Access Centre
CEAA	Canadian Environmental Assessment Act/Agency
CETA	Canada–European Union Free Trade Agreement
CETC	Co-operative Education Tax Credit
CHSRF	Canadian Health Services Research Foundation
CHSRG	Canadian Health Services Research Group
CHT	Canada Health Transfer
CIHI	Canadian Institute for Health Information
COIA	Canada–Ontario Immigration Agreement
CPI	consumer price index
CPP	Canada Pension Plan

CRA	Canada Revenue Agency
CRF	Community Reinvestment Fund
CST	Canada Social Transfer
DAA	Delegated Administrative Authorities
DRC	debt retirement charge
EA	environmental assessment
EASR	Environmental Activity and Sector Registry
ECA	Environmental Compliance Approval
ECE	early childhood educator
EGMS	Enterprise Grants Management System
EI	Employment Insurance
ELCC	Early Learning and Child Care
EMS	Emergency Medical Services
EO	Employment Ontario
EPA	Environmental Protection Act
EQAO	Education Quality and Accountability Office
ER	emergency room
ES	Employment Service
ETFO	Elementary Teachers' Federation of Ontario
EU	European Union
FDK	full-day kindergarten
FHO	Family Health Organization
FHT	Family Health Team

FIT	feed-in tariff
FSCO	Financial Services Commission of Ontario
FSW	Federal Skilled Worker
FTE	full-time equivalent
GBE	government business enterprise
GEO	Global Experience Ontario
GDP	gross domestic product
GTA	Greater Toronto Area
GTHA	Greater Toronto and Hamilton Area
HBAM	Health-Based Allocation Model
HOOPP	Healthcare of Ontario Pension Plan
HOT	high-occupancy/toll lane
HQO	Health Quality Ontario
HST	harmonized sales tax
I&IT	information and information technology
ICES	Institute for Clinical Evaluative Sciences
ICT	information and communications technology
IESO	Independent Electricity System Operator
INAC	Indian and Northern Affairs Canada
IO	Infrastructure Ontario
IP	intellectual property
IPRC	Identification, Placement and Review Committee
IPSP	Integrated Power System Plan

IT	information technology
JOT	Justice On Target
JSPP	Jointly Sponsored Pension Plan
LAO	Legal Aid Ontario
LCBO	Liquor Control Board of Ontario
LDC	local distribution companies
LHIN	Local Health Integration Network
LMA	Labour Market Agreement
LMDA	Labour Market Development Agreement
LSR	Local Services Realignment
LTC	long-term care
LTEP	Long-Term Energy Plan
LTIP	Long-Term Infrastructure Plan
MAG	Ministry of the Attorney General
MCI	Ministry of Citizenship and Immigration
MCSCS	Ministry of Community Safety and Correctional Services
MCSS	Ministry of Community and Social Services
MEU	municipal electrical utility
MGS	Ministry of Government Services
MNDM	Ministry of Northern Development and Mines
MNR	Ministry of Natural Resources
MOE	Ministry of the Environment
MOHLTC	Ministry of Health and Long-Term Care

MTCU	Ministry of Training, Colleges and Universities
NAFTA	North American Free Trade Agreement
NPLC	Nurse Practitioner-Led Clinic
OACP	Ontario Association of Chiefs of Police
OAPSB	Ontario Association of Police Services Boards
OCB	Ontario Child Benefit
OCEB	Ontario Clean Energy Benefit
OCT	Ontario College of Teachers
OCWA	Ontario Clean Water Agency
ODB	Ontario Drug Benefit Program
ODSP	Ontario Disability Support Program
OECD	Organization for Economic Co-operation and Development
OECM	Ontario Education Collaborative Marketplace
OECTA	Ontario English Catholic Teachers Association
OEFC	Ontario Electricity Financial Corporation
OEPTC	Ontario Energy and Property Tax Credit
OHIP	Ontario Health Insurance Plan
OLG	Ontario Lottery and Gaming Corporation
OLRB	Ontario Labour Relations Board
OMA	Ontario Medical Association
OMAFRA	Ontario Ministry of Agriculture, Food and Rural Affairs
OMPF	Ontario Municipal Partnership Fund
ONTC	Ontario Northland Transportation Commission

OPA	Ontario Power Authority
OPG	Ontario Power Generation
OPP	Ontario Provincial Police
OPS	Ontario Public Service
OPSEU	Ontario Public Service Employees Union
OPSEUPP	OPSEU Pension Plan
OSSTF	Ontario Secondary School Teachers' Federation
OTF	Ontario Teachers' Federation
OW	Ontario Works
PBA	Pension Benefits Act
PBGF	Pension Benefits Guarantee Fund
PIL	payments in lieu of taxes
PISA	Programme for International Student Assessment
PMFSDR	Provincial-Municipal Fiscal and Service Delivery Review
PNP	Provincial Nominee Program
POA	Provincial Offences Act
PSAB	Public Sector Accounting Board
PSE	post-secondary education
PSLRTA	Public Sector Labour Relations Transition Act
PSPP	Public Service Pension Plan
Q&E	Teacher Qualification & Experience
QECO	Qualifications Evaluation Council of Ontario
R&D	research and development

REA	Renewable Energy Approval
RFP	request for proposal
RMP	Risk Management Program
SBD	small business deduction
SIB	Social Impact Bond
SJIF	Strategic Jobs and Investment Fund
SME	small and medium enterprises
SR&ED	Scientific Research and Experimental Development
SSO	shared-service organization
STTF	Strategic Training and Transition Fund
TFSA	Tax-Free Savings Account
TPA	Taxpayer Protection Act
TPP	Teachers' Pension Plan
TTC	Toronto Transit Commission
Val Tag	Vehicle Validation Sticker
WHO	World Health Organization
YES	Youth Employment Strategy
YMPE	Year's Maximum Pensionable Earnings
3SO	Shared Support Services Southeastern Ontario

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