

Fedeli **Focus on Finance**

The so-called “wage freeze”

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Over one million people work for one of Ontario’s thousands of government employers. These range from your local school and hospital to the provincial bureaucracy, our casinos and liquor stores. So it’s not surprising that salaries and benefits for government workers are the single biggest expense in the provincial budget. Controlling these costs was the primary tool the government said it would use to wrestle down Ontario’s historic budget deficits by 2017-18. However, recent research – using Ministry of Labour data – reveals the government has not succeeded in freezing wages for government workers. In fact, there are hundreds of examples of deals agreed to by the government that have resulted in wage increases. (See accompanying spreadsheet.)

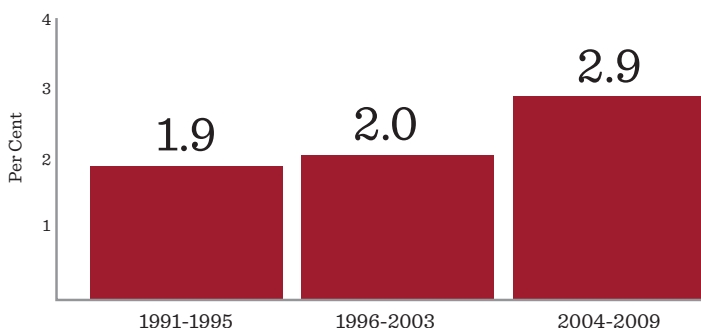


We can’t manage the deficit without addressing what is the single biggest line in our budget – public-sector compensation.

-Ontario Minister of Finance, July 20, 2010

Public-sector compensation costs make up 55 cents of every dollar spent on programs. Prior to the recession the government had been exceedingly generous in handing out pay increases.

Public-Sector Settlements Average Annual Growth



Source: Presentation by Finance Minister Dwight Duncan to Ontario public-sector unions, July 20, 2010

Instead of using legislation, the government sought to achieve its pay freeze through thousands of individual negotiations. Remember – there are 4,000 collective agreements in Ontario’s government sector. Seven out of every ten public employees are members of a labour union.

The 2010 budget did legislate a freeze for non-unionized employees, which it claimed would save \$750 million. It was only revealed later by the Canadian Press that the government’s freeze did not include things like performance bonuses, which went to 98 per cent of eligible managers.

In the 2012 budget, the government reiterated its commitment to freezing compensation, estimating this would save \$6 billion over three years. (See table on page 2 below.)

TABLE 1.7 Impact of Fiscal Actions

(\$ Billions)

	2012-13	2013-14	2014-15	3-year impact
Expense Measures				
Expense Management Measures	(1.0)	(1.7)	(2.2)	(4.9)
Compensation Restraint	(0.9)	(2.1)	(3.0)	(6.0)
Cost Avoidance	(0.1)	(1.5)	(5.2)	(6.8)
Total Expense Measures	(2.0)	(5.3)	(10.4)	(17.7)

However, without using legislation to enforce it, the freeze was always going to be difficult to implement. Even with respect to legislation used to freeze teacher compensation – known as “Bill 115” – approximately 40 per cent of teachers continued to move through the salary grid collecting pay increases. And in an effort to

repair the relationship between the current government and Ontario’s teachers’ unions, the premier promised elementary teachers they would receive a 2 per cent wage increase next fall without asking for concessions or offsets. According to the *Globe and Mail*, the deal “will cost the treasury \$112 million every year.”

NUMEROUS EXCEPTIONS WERE MADE TO THE GOVERNMENT’S WAGE FREEZE, INCLUDING:

MPAC: Employees at the Municipal Property Assessment Corporation received wage increases of 2.0 per cent in the first two years and 2.2 per cent in the third and fourth years.

Metrolinx: Workers at this provincial transit agency saw wage increases of 2.0 per cent in each of the first and second years and 2.3 per cent in the final year.

Ontario Medical Association: In November 2012 the government handed out a \$100 million compensation increase.

LCBO: This summer employees received “signing bonuses” of roughly \$1,600 per employee.

OLG Slots at Woodbine: A week after the LCBO deal, employees at OLG’s Slots at Woodbine were given up to \$1,200 signing bonuses over two years.

The list goes on... with exceptions to the wage freeze made for workers at:

University of Windsor
Ontario Power Generation
Niagara Parks Commission
Royal Conservatory of Music
Alcohol and Gaming Commission

Ontario Teachers Pension Plan Board
Pan Am Games Committee
Ryerson University
Elementary Teachers’ Federation
Hydro One

Since a wage freeze went into effect in 2010, approximately 8 out of 10 collective agreements in the Broader Public Sector have included compensation increases. (For more information, see accompanying spreadsheet.) This figure does not include the revisions to the teacher wage freeze – “Bill 115” – made by the premier in the spring. Ontario’s Auditor General is currently reviewing those costs and is expected to report back in early 2014.

A Wage Freeze is Still Necessary

The government set a target to eliminate Ontario's enormous budget shortfalls by 2017-18, but it never laid out a plan to do that.

This work was contracted out to independent economist Don Drummond, formally of TD Bank, who warned that, instead of balancing, the current plan would actually triple the province's debt to \$411 billion by 2017 if the government kept spending on such a huge scale.

Even before the release of the Drummond Report, the government had been warned its fiscal plan was unlikely to balance the budget by 2017-18.



In past negotiated settlements, public-sector salary increases have often exceeded the inflation rate. Even after the government's announcement in 2010 that it would not fund such increases, most collective agreements negotiated since have still resulted in wage increases.

-Auditor General, 2011

Provincial revenue forecasts are no better than when the government said it required a wage freeze to meet its balanced-budget targets. No further expenditure restraint has been announced to offset these increases, and the government has already backed off of some of its existing plans.

Before stepping down last year, the previous premier and finance minister went so far as to draft legislation to provide a legal framework for enforcing the wage freeze, since negotiations weren't working. Entitled *The Protecting Public Services Act*, this 84-page piece of legislation has not been tabled by the current government. In fact, the 2013 budget removed all references to a wage freeze and instead proposed to "work together" to achieve desired outcomes.

Rather than a wage freeze, per se, the finance minister now says the government will "advocate for wage constraint," refuses to use the term "wage freeze," and appears to be explicitly backing away from the policy of his predecessor.

THEN

"Where collective agreements cannot be negotiated that are consistent with the fiscal plan... the government will consider all options to meet its fiscal goals, including intervention through legislation or other means."

-Budget 2012

NOW

"We're working closely with the stakeholders involved to administer negotiations within the pay envelope that we now have."

-Ontario Minister of Finance, September 2013

Conclusion

Ontario has a serious problem, and the government is not being honest about it.

Key Questions

If the government's wage freeze has failed, does the province's fiscal plan still include the estimated \$6-billion savings from this measure?

If the government's wage freeze has failed, does it still expect to balance the budget by 2017-18?

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