



Hill+Knowlton
Strategies

MEMO:

To: Public Affairs Clients

From: Hill+Knowlton Strategies

Subject: Ontario Fall Economic Statement

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Today, Finance Minister Rod Phillips introduced his first Fall Economic Statement *A Plan to Build Ontario Together* in the legislature. Minister Phillips highlighted the government's accomplishments since its election 16 months ago and laid the groundwork for the government's direction moving forward.

The 2019 Ontario Fall Economic Statement strikes a balance between a commitment to deficit reduction and an investment in the critical services Ontarians need. The document does not detail many new, flashy or controversial measures that have coloured earlier plans from the Ford government. It does, however, address some of the concerns from Ontarians over the past year. The document very much sets a new tone which speaks to the Ford government's endeavour to be more thoughtful, deliberate and cautious about the kind of changes a PC government will pursue in the remainder of this mandate.

The document laid out six themes that will guide the Ford government as they move throughout the next few years:

- + Make life more affordable
- + Prepare people for jobs
- + Create a more competitive business environment
- + Connect people to places
- + Built healthier and safer communities
- + Make government smarter

All new initiatives introduced by the government will fall within these themes which lay the groundwork for next year's budget and further demonstrates the Ford government's commitment to a more mature and steady approach. While the Premier's first year in power was overshadowed with policy retractions and internal struggles, this Statement signals a desire to return to the people-first policy initiatives included in the party's election platform.

Highlights

- + Deficit projection reduced to \$9 billion from budget target of \$10.3 billion
- + Small business tax cut from 3.5% to 3.2%
- + Eliminating \$2 co-pays for pharmacy payments for residents of long-term care homes
- + Reduction of aviation fuel tax rate to 2.7 centres/litre from 6.7 cents/litre
- + Free access for children under 14 to attractions, museums, galleries and historic sites across the province

Fiscal Outlook and New Spending

The government is currently coming in below their original budget target of \$10.3 billion at a projected deficit of \$9 billion in 2019-20. The government has benefited from a growing economy with higher projected revenues and is borrowing less, therefore making interest payments on the debt lower. For the first time, the government is accounting for \$1.3 billion in “new allocated spending”. This is largely due to some course corrections made throughout the first year of the PC’s mandate. Overall, spending is now projected to be \$163.8 billion this fiscal year.

For the remainder of this mandate, the government is projecting deficits of \$9 billion in 2019-20, \$6.7 billion in 2020-21 and \$5.4 billion in 2021-22. These numbers do not change the government’s stated goal of returning to balance by 2023-24.

While the fiscal outlook is promising, the government does not acknowledge in this Statement big promises it made during the 2018 election, such as a 12% reduction in hydro rates, as part of the projected deficits. As such, it is likely that government spending promises will go beyond the \$9 billion projected today.

The most notable increases in government spending are an additional \$400 million in health care, which includes additional funding for small and medium-sized hospitals, increased utilization of OHIP services and the elimination of co-payment for long-term care residents. An increase of \$200 million on education accounts for increased funding to help municipal partners provide childcare programs and increased support to elementary and secondary education programs. The largest increase noted is in the Children’s and Social Services sector which accounts for investments in social assistance, developmental services, child welfare and the province’s autism program.

Health Care

As anticipated, the Fall Economic Statement did not include significant new health funding commitments. Instead, it accounts for increased expenses that are largely due to government walk-backs on cuts to program spending coming out of the 2019 Ontario Budget. Overall, health sector expenses have increased by \$404 million for 2019-20, which are mainly due to:

- + \$227 million for items such as increased utilization of physician and other services under the Ontario Health Insurance Plan (OHIP) and removing the prescription co-payment for long-term care home residents;
- + \$68 million for hospitals to address capacity issues, wait times and access to programs;
- + \$41 million for Public Health Units while the ministry considers options for modernizing public health and completes consultations with stakeholders; and
- + \$26 million to support municipal land ambulance operations.

Digital Health

The Statement touts government’s commitment to enhancing digital solutions as part of its Digital-First for Health Strategy, which will develop digital tools for Ontarians such as virtual visits, online access to health records, and digital supports.

As part of this effort, the government has stated that it will “fix outdated laws, policies and rules”. In the legislation that follows, it is expected that government will propose changes to PHIPA that will enable use of the proposed digital options for health providers and patients.

Energy

The government committed to a 12% reduction in hydro rates during the 2018 Provincial Election. In a step towards achieving this promise, the Ford government has worked to increase transparency in helping consumers understand their electricity bills and what they are paying for, while keeping any increases below the rate of inflation. Effective November 1, 2019, the Ontario Electricity Rebate, at the cost of \$4 billion this year, will replace the previous government's subsidy program which was not accounted for in today's spending projections.

Small Business Tax Cut

The small business tax rate will be reduced from 3.5% to 3.2%, fulfilling the government's election promise to cut the tax by 8.7%. This will provide up to \$1,500 annually in corporate income tax relief to over 275,000 businesses. According to the government, this proposal, together with accelerated write offs of capital investments and the government's decision to not parallel a federal tax increase on some small businesses, would deliver \$255 million in Ontario income tax relief to small businesses in 2020.

Smarter Government

Part of the Premier's promise to voters was to make government more efficient. As part of this promise, the Statement lays the groundwork for a move to centralized procurement which will drive an estimated savings of \$1 billion per year.

A Value Creation Task Force consisting of cabinet and other caucus members has been established to identify new opportunities for the government to generate new, recurring and non-tax revenue streams. The task force's mandate excludes one-time revenue generation. Members of the Task Force will include Finance Minister Phillips, Treasury Board President Peter Bethlenfalvy, and Associate Minister of Small Business and Red Tape Reduction Prabmeet Sakaria.

Modernizing Financial Services

Legislation is being introduced to modernize Ontario's financial services that enable streamlined and more efficient regulation. This includes repealing the *Toronto Stock Exchange Act* and amending the *Securities Act*, in line with the Capital Markets Plan to allow the Ontario Securities Commission to issue blanket orders supporter greater efficiencies in capital markets.

Measures will also be undertaken to create a modernized securities regulatory framework. As part of this, a securities modernization task force will be established. The task force will solicit input from stakeholders and provide policy recommendations on critical areas such as driving competitiveness, regulatory structure, efficient regulation and investor protection.

Cannabis

The government is committed to moving to an open allocation of cannabis retail stores licences where the number of stores will be limited only by market demand, including opening those licences to licensed producers to allow the opening of a retail operation at the point-of-production. The Ontario Cannabis Store (OCS) will explore private sector participation in delivery of recreational cannabis to retail stores across Ontario.

The government is also proposing to amend legislation to allow authorized retail stores to sell cannabis products online or over the phone for pick-up by the consumer in-store, which is known as click-and-collect.

This is a topline overview of the Fall Economic Statement. H+K will follow up with clients directly regarding relevant legislation and subsequent regulations.

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