

AMAPCEO

The Association of Management, Administrative and  
Professional Crown Employees of Ontario

# Ontario Pre-Budget Submission 2015

AMAPCEO is the Association of Management, Administrative and Professional Crown Employees of Ontario and is a bargaining agent representing approximately 11,500 professional and supervisory employees who work in the Ontario Public Service directly for the Government of Ontario, in every ministry and in a number of agencies, boards and commissions; in over 130 communities across the province and in 11 cities outside Canada. AMAPCEO also represents over 500 employees in the broader public sector who work at: Health Quality Ontario; Office of the Provincial Advocate for Children and Youth; Office of the French Language Services Commissioner; Ontario Arts Council; Ontario Racing Commission; Public Health Ontario; and Waypoint Centre for Mental Health.

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**AMAPCEO Submission – Ontario 2015 Pre-Budget Consultations**

**INTRODUCTION:**

AMAPCEO welcomes the opportunity to take part in the 2015 pre-budget consultations.

Our submission focusses on five specific recommendations:

- 1) The government must end its policy of wage restraint in the public sector
- 2) The government must work to increase revenue
- 3) The government must continue its efforts on pension reform
- 4) The government must minimize the use of consultants throughout the public service, but most pressing in Information Technology
- 5) The government must, given the Auditor General’s recent report, look to bring more management of public sector construction projects in-house.

We offer these recommendations to a Liberal government which has, since the onset of financial crisis in the fall of 2008, sought to return to balance on the backs of its employees. Owing largely to this approach, labour relations within the Ontario Public Service are at a low point.

With that said, and despite another difficult round of bargaining for AMAPCEO’s OPS bargaining unit in 2014, we are encouraged that, in its 2014 Budget, the government showed some progress on two of our recommendations:

- On revenue increases, AMAPCEO applauds the government’s first step of increasing tax rates for those earning over \$150,000
- On the pensions front, AMAPCEO supports the government’s plans to proceed with the Ontario Retirement Pension Plan.

There is, of course, much more to be done as Ontarians work together to create a fairer, more inclusive Ontario.

It is in that spirit that we offer these recommendations.

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**RECOMMENDATION 1:**

**The Government must end its policy of wage restraint in the public sector**

The new Liberal government, by all appearances, remains enamoured with the 2012 report of the Commission on the Reform of Ontario’s Public Services, otherwise known as the Drummond Report. Though the government with some measure of pride points to the 80% of Drummond recommendations

that are being acted on, there are, of course, certain areas with which the government has chosen to disagree with the report's conclusions.

“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.”

Drummond Report, page 52

The government ignored this advice, instead choosing to pursue a course of wage freezes for its employees. In doing so, the government made real the first part of the Drummond Report's warning: labour relations were certainly damaged. Just this past year, for instance, the government has seen both AMAPCEO—in a first for that unit—and OPSEU hold strike votes for their Ontario Public Service members. Each of those votes passed with greater than 90% support. This is an unprecedented level of labour discord within the OPS.

The second part of the Drummond Report's warning—that wage freezes tend to be followed by wage catch-ups—can be seen historically. The reason for this is easy to understand: in order to attract competent employees, an employer needs to offer an attractive wage. It is for this reason that, according to University of Toronto labour economist Morley Gunderson, aggregate wage changes of both the public and private sectors “are fairly close over the long run.” While there are times when public sector wage increases outpace those of the private sector, such a period “usually reflects a catch-up for having fallen behind.”\*

Put simply: how much of a wage cut—because, given inflation, that is what a wage freeze is—can a workforce take?

AMAPCEO's OPS members, even prior to the four-year wage freeze the government has obtained through the past two rounds of bargaining, were significantly underpaid vis-à-vis the broader labour market. A third party analysis completed in 2007 by the international management consultancy Hay Group showed that, on average, AMAPCEO OPS member salaries were 19% below market.

Over the four-year wage freeze and subsequent two years of lagging 1.4% increases, a rough forecast would see AMAPCEO OPS salaries being eroded by some 9.5% against inflation over six years. Similar figures are true for our members who work in the seven bargaining units we represent in the Broader Public Sector outside the OPS.

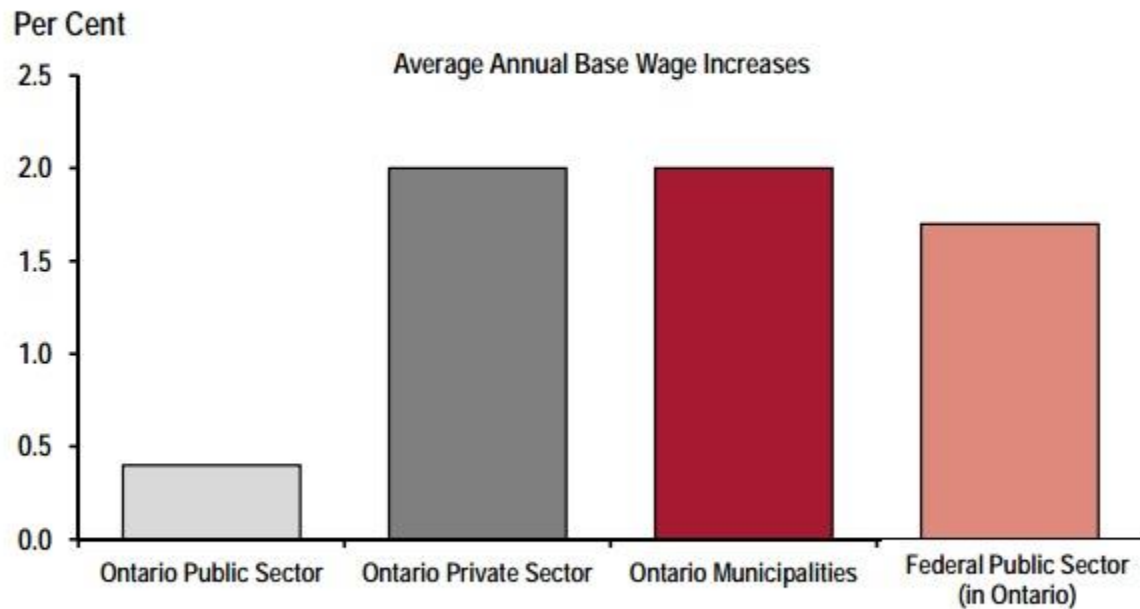
The government's systematic devaluing of the labour of public servants, both within the OPS and throughout the BPS, is seen as a key driver of the government's fiscal plan. Take, for instance this chart from the 2014 budget papers:

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\* Morley Gunderson, “Public Sector Compensation” in Gene Swimmer & Mark Thompson, eds., *Public Sector Collective Bargaining in Canada: Beginning of the End or End of the Beginning?* (Kingston: IRC Press, 1995) 103 at 116.

CHART 1.17

## Ontario Wage Settlements



*Note:* Data are for agreements with over 150 employees, ratified between July 17, 2012, and March 26, 2014.  
*Sources:* Ontario Ministry of Government Services and Ontario Ministry of Labour.

The government is trumpeting how poorly it treats its employees.

In order to maintain the OPS's status as an "employer of choice" it is simply a fact that as salaries fall against the market, there will have to be a rebound in the future. As the Drummond Report makes clear, catch-up necessarily follows a freeze. One might add: the longer the freeze, the greater the catch-up that must occur.

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## RECOMMENDATION 2:

### The government must work to increase revenue

Among many economists, it has become a commonplace view that Ontario has a *revenue* problem rather than a *spending* problem. This is evinced by the fact that deficits are continually being posted in a jurisdiction that brags of having the country's lowest cost government on a per capita basis.

AMAPCEO applauds the government's decision in last year's budget to increase income taxes for those earning more than \$150,000 per year. This initiative is projected in the budget papers to add \$700 million to revenues by 2016-17.

The Liberal government under its current leadership perhaps deserves credit in doing what its previous iteration was ideologically opposed to: looking at the revenue side of the equation.

Despite this, though, the Wynne Liberal government persists in pursuing an austerity agenda in an effort to balance the books.

Recommendation 1 discussed how the government continues to devalue its employees in its effort to balance its budget through cuts to their compensation and benefits. As seen above, the difficulties with this approach were spelled out in the Drummond report. On this, the government ignored their chosen economist's advice.

On the issue of revenue, rather than the government ignoring their economist, they asked their economist to ignore reality. The terms of reference that the Ministry of Finance handed the Commission on Reform of Ontario's Public Services stated that the commission "will not make recommendations that would increase taxes", thereby foreclosing that particular source of revenue from discussion.

Of course, the Drummond Report does look at non-tax revenues, going so far as to recommend that, among other solutions, the province should make sure to collect all fines it is owed, crack down on the underground economy, increase user fees, tie excise taxes to the value of the good in question, etc. Surely these are all worthy ideas.

Importantly, though, the vast majority of Ontario government revenues come from taxes. Beginning with the Harris and Eves PC governments—and continuing through the McGuinty and Wynne Liberal governments—the tax cut agenda "sacrifice[s] a cumulative \$19 billion a year" in revenues, according to the Canadian Centre for Policy Alternatives (CCPA).

The CCPA has put forward several sample ideas which could, together, generate \$13.7 billion dollars in new government revenue:

- Reverse cuts to capital gains taxes made by the Harris government: \$1.3 billion (2012 value)

- Raise the gas tax by 10 cents: \$2 billion
- Return corporate tax levels to the 2009 level: \$2.5 billion
- Eliminate Employer Health Tax exemptions: \$2.5 billion
- Return HST to the 2007 level: \$5.4 billion

While AMAPCEO does not advocate for any particular revenue tool, we would like to underline that revenue tools, in the form of increased taxes, must be on the table. In its quest to balance the budget, the government must broaden its approach from one focused on austerity towards a more sensible approach in which meaningful revenue boosts are on the table.

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### **RECOMMENDATION 3:**

#### **The government must continue its efforts on pension reform**

All Ontarians deserve to retire in dignity.

It is clear that the best way to ensure this goal is through providing a universal mandated savings programme; in fact, this has been clear for decades. It's why the Canada Pension Plan exists.

AMAPCEO enthusiastically supports the government's efforts, announced in last year's budget, to ensure stable retirement incomes for more Ontarians via the Ontario Retirement Pension Plan (ORPP). While AMAPCEO backs the plan in broad strokes, there are a variety of issues that need to be grappled with in during the consultation period. In short, the proposed ORPP needs to be like the CPP in that it is universal in its application and is a defined benefit plan. As well, the ORPP needs to seamlessly integrate with the CPP.

Another issue of concern to AMAPCEO is the potential for pooled asset management between the Ontario Pension Board (OPB) and one or more other institutions.

Some sort of pooling arrangements with public sector plans have been under consideration by the government since the Facilitating Pooled Asset Management for Ontario's Public-Sector Institutions report of October 2012.

There are definitely benefits with some degree of asset pooling. For instance, as the Ontario Pension Board has it:

“ A centralized manager, overseeing a very large pool of assets, could better attract and retain a world-class investment team, build better risk management systems, access a broader array of investment opportunities, and enhance efficiency. Our expectation is that all of this could lead to enhanced investment returns net of expenses. Even an increase in our average annual net investment return of one quarter of

one per cent over a period of 15 years would add \$700 million in assets to the Plan.”

Ontario Pension Board, President’s Message, 2014

While there are definite potential benefits to asset pooling, so too are there risks. Should the government proceed with a pooling of certain pension assets it must do so cognizant of a host of issues which might emerge. Among these issues are governance structures. Another is the mixing of non-pension entities (for instance, the Workplace Safety and Insurance Board fund) with a pension entity. If this is undertaken, special thought must be given to the different financial demands on such actors. While a pension fund is generally quite predictable in terms of required outputs, an insurance fund could see much larger—and unpredictable—swings from year to year.

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#### **RECOMMENDATION 4:**

#### **The government must minimize the use of consultants throughout the public service, but most pressing in Information Technology**

The history of information technology in the OPS has been one of overreliance on the use of external consultants.

However, the track record on IT programs and projects demonstrates that there is better value and outcomes when IT is delivered in-house by using public servants. There are two main reasons for this:

- (1) Public Servants are more cost-effective than consultants in terms of their daily rates. Consultant rates can easily double or triple the cost of doing the work with public servants.
- (2) IT Programs and Projects have better outcomes when delivered by public servants instead of consultants.

The outcomes improve when public servants are used simply because of the gains in organizational knowledge retention. The use of external consultants can lead to costly knowledge gaps down the road in terms of maintaining and improving the systems developed. To avoid this major—and potentially costly—problem, it is crucial to have in-house capacity and knowledge.

Moreover, we hear from our members who work in IT that external consultants tend to have difficulty understanding the business needs of government users due to the complexity of the business, legislative, and privacy requirements inherent in government. Consequently, external consultants require extra time to learn these processes and that extra time pushes up costs even more. Simply put, programs and projects work better with specialized in-house IT workers who are familiar with the business needs of government.

Why then are consultants used so often throughout government (this is not a problem exclusive to IT)? The answer is that consultants are often used as a substitute for full-time employees (FTE) due to mandated limits on staff numbers. Managers are driven to use consultants, not due to the need for short-term specialized skills, but due to the need to live within the Ministry FTE limits. The FTE limits create incentives for managers to use IT consultants when they are not otherwise required. It's well known that so-called FTE limits are a charade - routinely circumvented by the hiring of consultants. The end result of this being no difference in the actual number of people working on a given project, but increased staffing costs over what FTEs would cost given the premium consultants are paid.

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#### **RECOMMENDATION 5:**

**The government must, given the Auditor General's recent report, look to bring more management of public sector construction projects in-house**

In her 2014 Annual Report, the Auditor General of Ontario put forward a series of recommendations around Infrastructure Ontario's so-called Alternative Financing and Procurement (AFP) process.

Shockingly, the Auditor General found that the tangible costs of building public sector facilities via the AFP process drove costs some \$8 billion higher than they would have been had the projects in question been contracted out and managed directly by the public sector.

A chief reason for this cost inflation is that it costs some 14 times more for a company to borrow the funds necessary for construction than it would cost the government. On top of that inflated cost, of course, the private company receives a premium in order to turn its profit.

The Auditor General provides several recommendations as to how the government could improve its usage of AFPs.

AMAPCEO offers as a recommendation that the government bring project management and financing of construction projects into the public sector.

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#### **CONCLUSION:**

Once again, AMAPCEO welcomes this opportunity to participate in the 2015 pre-budget consultations.

Our President, Dave Bulmer, would be pleased to provide additional information or clarification of any of the recommendations.



## **ABOUT AMAPCEO:**

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