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## **Official Report of Debates (Hansard)**

**Tuesday 22 June 2004**

## **Journal des débats (Hansard)**

**Mardi 22 juin 2004**

**Standing committee on  
estimates**

Organization

Ministry of Finance

**Comité permanent des  
budgets des dépenses**

Organisation

Ministère des Finances

Chair: Cameron Jackson  
Clerk: Trevor Day

Président : Cameron Jackson  
Greffier : Trevor Day

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## LEGISLATIVE ASSEMBLY OF ONTARIO

## ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

STANDING COMMITTEE ON  
ESTIMATESCOMITÉ PERMANENT DES  
BUDGETS DES DÉPENSES

Tuesday 22 June 2004

Mardi 22 juin 2004

The committee met at 1559 in room 151.

## ELECTION OF CHAIR

**Clerk of the Committee (Mr Trevor Day):** Honourable members, it is my duty to call upon you to elect a Chair. Any nominations?

**Mr Kuldip Kular (Bramalea-Gore-Malton-Springdale):** I nominate Cam Jackson, the member for Burlington, for the position of Chair of the standing committee on estimates.

**Clerk of the Committee:** Mr Jackson has been nominated. Any further nominations?

**Mr John R. Baird (Nepean-Carleton):** I'd like to nominate Mr Arthurs.

**Clerk of the Committee:** Mr Arthurs has also been nominated. Any further nominations?

**Mr Wayne Arthurs (Pickering-Ajax-Uxbridge):** I respectfully decline.

**Clerk of the Committee:** On Mr Jackson, all those in favour? That's unanimous. Mr Jackson is the Chair.

## ELECTION OF VICE-CHAIR

**The Chair (Mr Cameron Jackson):** Our next order of business is to elect a Vice-Chair.

*Interjection.*

**The Chair:** Mr Baird, I have a lot of staff in the room who would like to get on with estimates. I would like to move through the call for nominations for Vice-Chair.

**Mr Arthurs:** I nominate the member for Durham, John O'Toole.

**The Chair:** Any further nominations? Last call, any further nominations? Seeing none, I declare John O'Toole Vice-Chair.

## APPOINTMENT OF SUBCOMMITTEE

**The Chair:** I need nominees for the subcommittee.

**Mr Arthurs:** I move the subcommittee include Ms Di Cocco, Mr O'Toole and Ms Horwath.

**The Chair:** Any further nominations? Last call, any further nominations? All in favour? Opposed, if any? Carried.

## MINISTRY OF FINANCE

**The Chair:** I would like to welcome the Honourable Greg Sorbara, Minister of Finance. I recall doing his first estimates as minister, and I was his critic. So 20 years later we're back in the same room, in a little different position—

**Hon Greg Sorbara (Minister of Finance):** Same stuff, same speech.

**The Chair:** Welcome, Minister. According to our standing orders, we have seven and a half hours. Would you please introduce your deputy and your assistant deputy ministers who are with you for the record, for Hansard, and we are in your hands for 30 minutes.

**Hon Mr Sorbara:** I'm going to introduce my deputy, Colin Andersen. He's going to introduce the people who are going to help us through these marvellous seven and a half hours.

**Mr Colin Andersen:** Did you want us to go through the list now or as they come up?

**The Chair:** Quite frankly, only when members are present and have a chance to be recorded by Hansard, it's helpful that we then have their names. So as people come forward, if they'd introduce themselves, that's very helpful, but it is a very long list, which has been circulated to all members, of the staff who are here today.

**Hon Mr Sorbara:** I'll also introduce Len Roozen. Len, what is your appropriate title?

**Mr Len Roozen:** Chief administrative officer for the ministry.

**Hon Mr Sorbara:** If I recall procedures, if I understand the agreement, I'm going to begin with an opening statement of more or less 30 minutes, is that right?

**The Chair:** Less or equal.

**Hon Mr Sorbara:** Less or equal. I'll keep a good eye on the clock and try to govern myself accordingly.

I want to begin by thanking the members of the standing committee on estimates for the opportunity to address you today, tomorrow and some time in September as part of your public hearings.

I should begin today by focusing on the overall direction and objectives we had as we prepared our last budget, as I assume much of the discussion during these estimates will flow from what was in the budget.

You should understand that our first objective was to set ourselves a comprehensive plan to bring the province back to fiscal financial health. We determined after much

work that the most appropriate course was a four-year plan, which ultimately will show this province in positive territory in the fourth year of our plan.

Second, it was our objective to begin to significantly transform and improve the quality and effectiveness of public services, particularly in the areas of health care and education.

Thirdly—and I put a high premium on this during the budget speech—it was important in the budget to take steps to provide specific assistance to those among us who are most vulnerable. That's the reason we increased payments for those receiving Ontario disability support payments, those on public assistance and initiatives like the \$25 million that we allocated to children's mental health.

Finally, and most importantly, it was important for us in the budget to lay the groundwork for a new generation of economic growth in Ontario. That, I think, is the acid test of every budget. Given the reports I've heard as I travel around the province, and the objective analysis of rating agencies like Moody's, I'm very satisfied that in this fourth category we have done a good job indeed.

I should point out that the Ministry of Finance, as a central agency, is at the helm of change through the transformation of government. We are among the leaders in government in transforming how we deliver public services. The ministry will achieve these goals through a comprehensive four-year plan that will bring the province back to financial health.

We will hold program spending to less than the rate of growth in our tax revenues over the medium term, and that obviously is an integral part of our determination to get the province in the black again. We're going to be transforming programs and services so that they are more accountable, more affordable and certainly results based.

I want to say a word about the Fiscal Transparency and Accountability Act, which I introduced on budget day. If passed, that act would set a more responsible financial framework for governments—this one and all those in the future—including the requirement that an independent review of the government's books be put before the people of the province before an election.

As members know, the estimates for the Ministry of Finance provide the details of our operating and capital expenditures for 2004-05. They constitute our formal request to the Legislature for spending authority to implement key programs and services. The estimates are the result of a rigorous, results-based planning process. They are carefully developed to identify the resources required to implement the government's ongoing priorities and commitments. The estimates also include funding allocations for a number of new high-priority initiatives announced in the budget.

Part of the Ministry of Finance's role in implementing the four-year plan will be to address issues surrounding municipalities, property tax, infrastructure financing and tax administration, to name a few. We will do this with a mandate of ensuring transparency and accountability, as well as effective and efficient administration.

I want to start off with the area of municipalities. The ministry plans to implement various strategies to provide greater autonomy for municipalities. We will review property tax and assessment policies to provide a simpler, fairer and more stable property tax system.

My colleague John Gerretsen, the Minister of Municipal Affairs and Housing, will begin a dialogue with municipal leaders that will result in a new partnership between municipalities and the province, including issues relating to governance and financial tools. Central to these discussions will be a review of the community reinvestment fund, the largest unconditional grant to municipalities. Together with our municipal partners, we will examine options for a new fiscal relationship for 2005 and beyond.

We also announced in the budget the creation of the Ontario Strategic Infrastructure Financing Authority to provide efficient and affordable financing for our broader public sector partners. I'll talk about that in more detail in a few moments.

Never before have our municipalities faced so many challenges, from gridlock, particularly in the greater Toronto area, to soaring public health costs around the province. I would suggest to you that our four-year plan will help them meet these challenges.

The Ministry of Finance will also undertake the following projects to provide a more stable property tax system.

*Interruption.*

**Hon Mr Sorbara:** What do we do about that?

**The Chair:** It's a quorum call, but I'm not panicking. You can proceed, Minister.

**Hon Mr Sorbara:** I'm talking about a number of initiatives that will give us a more stable property tax system.

The first is introducing legislation that would further expand municipal options in designing the phase-in of current-value-assessment-based property tax for businesses.

The second is continuing to support municipalities through the early release of regulations for property taxes and community reinvestment fund forecasts.

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The third is continuing to review annual property tax regulations to identify opportunities for consolidation, streamlining, understandability and timeliness.

The fourth is altering the timelines of the assessment cycle to address challenges identified by key stakeholders.

The fifth is providing municipalities with a range of options to modify the tax capping program in order to increase progress toward current value assessment.

The sixth and final item is introducing legislation to revise the valuation date for property assessment by setting it back by six months to January 1 of the year preceding the taxation year. That will begin in 2006.

The next reassessment would be conducted for the 2006 taxation year based on January 1, 2005, property values.

Comme vous le savez, notre gouvernement a une vision pour les affaires municipales. Grâce à nos initiatives, nous établirons un nouveau partenariat encore plus solide qui fournira aux municipalités les outils dont elles ont besoin pour permettre à la population de l'Ontario d'avoir la qualité de vie qu'elle mérite.

Also, we will be increasing the province's share of public health costs from 50% to 75% over the next three years.

As we announced in the budget, in October of this year we will begin to deliver our commitment and dedicate two cents of the existing provincial gasoline tax to municipalities for public transit. We will begin with one cent in October 2004, 1.5 cents a year later and two cents in October 2006.

As I mentioned earlier, we have provided tools in support of public infrastructure financing that will allow expanding the infrastructure renewal loan program.

To this effect, we've created the Ontario Strategic Infrastructure Financing Authority. We call it OSIFA. Its job is to provide efficient and affordable financing to assist the broader public sector in renewing and building critical municipal health, education and housing infrastructure. Renewing Ontario's public infrastructure improves the quality of public services and helps build a strong and prosperous economy.

OSIFA is based on a proven pooled financing concept that aggregates the infrastructure investment needs of many borrowers into one borrowing pool. OSIFA will provide access to infrastructure capital that would not otherwise be available to smaller borrowers. Under the OSIFA approach, all borrowers will receive the same low interest rate.

OSIFA's 2004-05 infrastructure renewal loan program is focused on Ontario's municipalities, aiming to offer affordable infrastructure financing for five key municipal priorities: clean water infrastructure, sewage treatment facilities, waste management infrastructure, municipal roads and bridges, and public transit.

OSIFA is now accepting applications from municipalities for this year's loan program.

Along with Ontario's municipalities, the OSIFA infrastructure renewal loan program will include hospitals, municipal long-term-care facilities, colleges, universities, school boards and affordable housing providers. The parameters for the OSIFA infrastructure renewal loan program for these important areas will be announced later this year.

OSIFA will fund its infrastructure renewal loan program through the sale of infrastructure renewal bonds, IRBs, to institutional and individual investors. These IRBs will be attractive investments to large institutional investors such as pension funds and insurance companies, as well as local investors looking for a solid investment for their families and an opportunity to invest in their communities. The first issue of IRBs will take place later this year.

I'd like to remind all members of this committee that our government has made the commitment to implementing all the recommendations of the O'Connor report.

To this effect, in 2004 we will be investing more than \$400 million to support source-to-tap drinking water initiatives, including helping municipalities bring their water treatment facilities up to world-class standards set out in Ontario's Safe Drinking Water Act.

This will be supported by developing a 10-year strategic infrastructure investment plan to guide future investment decisions. The plan will identify long-term investment priorities in key sectors, such as water and waste water, transportation, health, justice, schools and post-secondary education. These infrastructure initiatives exist because, simply said, the strongest societies and the strongest economies are rooted in modern, reliable, efficient and affordable infrastructure.

To better serve the wider public interest, the ministry will undertake several important projects. The Ministry of Finance will be transforming Ontario's tax administration through organizational restructuring and modernizing the tax revenue division's main computer systems. It will also balance service and compliance in tax administration by adding both taxpayer service-oriented staff and, notably, enforcement staff. It will expand the integration of client services across ministries and jurisdictions through a number of co-operative efforts.

The ministry will continue to work on eliminating regulatory and interjurisdictional overlap and duplication in several financial sectors, including pension, insurance, loan and trust.

Le ministère travaillera à la modernisation des cadres réglementaires de plusieurs services financiers, dont ceux des courtiers en hypothèques des caisses populaires et des « credit unions ».

The ministry will be reviewing opportunities in its call centre operations to integrate services in the context of the larger OPS Service Ontario initiative championed by the Ministry of Consumer and Business Services. It will undertake a study for an integrated computer telephony infrastructure and business delivery model. Finally, the ministry will investigate opportunities to centralize revenue processing undertaken by other ministries.

The Ministry of Finance will undertake major initiatives in other areas as well. It will establish the Ontario Buys working group to make recommendations on the implementation of supply chain management in Ontario. As part of phase one of this project, the working group will focus on implementing supply chain management in school boards, colleges, universities and hospitals.

The province will include school boards, community colleges and hospitals in the province's financial statement starting in the year 2005-06 annual report and subsequent 2006-07 budgets in accordance with the generally accepted accounting standards now prescribed by the Canadian Institute of Chartered Accountants for governments in Canada.

When we consulted Ontarians, they told us that they wanted a government that was not only accountable and transparent but also well managed. These are initiatives that will help the Ministry of Finance make Ontario a leader in delivering quality public services in an efficient manner to improve the quality of life for Ontarians.

Other initiatives will ensure that areas of the province which have been neglected for many years will receive the attention they deserve from our government. My northern caucus colleagues remind me that Ontario is a vast province, and 90% of that province is in the north. Unfortunately, the extraordinary potential of the north remains largely untapped. That is why our government is committed to enacting a northern prosperity plan to help northern communities attract and retain investment and jobs.

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To this effect, the Ministry of Finance will be supporting lead ministries in the development and implementation of the northern prosperity plan. Two important components of this plan are the dedication of \$10 million to support the new GO North investor program and the decision to move forward with a \$135-million investment in community infrastructure initiatives through the northern Ontario heritage fund. The ministry will introduce legislation to establish the northern Ontario grow bonds pilot project as well. Finally, but this is also very important for northern municipalities, the ministry will be consulting on provincial land tax reform.

We have said that the primary objective of the budget is to lay the groundwork for renewed growth of the Ontario economy, and we have an ambitious goal. It is to make Ontario the North American leader in economic growth and in innovation. We have said we are going to do that with a fiscal policy agenda designed to eliminate the deficit over our first mandate.

Nous allons le faire à l'aide d'un régime fiscal compétitif qui génère les revenus nécessaires pour financer des services publics durables. Nous allons le faire grâce à un gouvernement efficient et bien géré. Et nous allons le faire en revitalisant notre infrastructure, en rebâtissant notre secteur de l'électricité et en maintenant les normes élevées des services publics.

It is unfortunately a sad fact that about half of Ontario's high school students, by choice or circumstance, do not go on to pursue a post-secondary education. Our government is committed to giving these young people the opportunity to benefit from and contribute to Ontario's economic growth.

That's why in the 2004 budget I announced several initiatives that would increase the number of apprenticeships in the province, helping ensure that we have skilled workers in the construction, industrial and manufacturing sectors in the years to come. The Ministry of Finance proposes to implement a new apprenticeship training tax credit to encourage employers to hire and train apprentices in skilled trades.

Every year about 125,000 people arrive from around the world to make Ontario their home. They enrich our province both culturally and economically. Ontario was built on immigration. Without it, our economy would grind to a halt. We owe it to new Ontarians, and we owe it to ourselves, to speed their integration into our workforce. We will start by tearing down the barriers that face

immigrants trying to enter the trades and professions in Ontario.

We know that job creation is the most important measure of a growing economy. This government understands that small businesses make a big contribution to job creation and economic growth in Ontario. That's why we held the line on the small business corporate income tax rate last fall, when corporate income tax rates were returned to their previous levels.

We also accelerated the increase in the small business threshold, and we are maintaining the \$400,000 exemption for the employer health tax. To better meet the needs of small businesses, we will meet our commitment to convert the Red Tape Commission into a small business agency. Also, the ministry will be introducing legislation to simplify the process for farmers to obtain retail sales tax exemptions on farm-related supplies and equipment.

Our May 18 budget contained two important new tax initiatives; for business, positive changes that would make us more competitive and promote investment.

First, we are proposing to gradually eliminate Ontario's capital tax. This tax, that businesses must pay whether or not they are profitable, is in effect a tax on investment and a tax on job creation. This important change would be phased in starting on January 1, 2005. It would mean that in 2008 more than 13,000 medium-sized corporations would no longer pay capital tax and by 2012 this tax would be completely eliminated.

The second tax change we are proposing is to change capital cost allowances to allow faster write-offs of computer and data network infrastructure equipment.

I'd like to say a few words about our policy regarding public assets. I want to reiterate what I have said in the budget, before the budget and after: We will not sell public assets in order to pay for our ongoing cost of operations; we will not use the sale of assets to hide deficits. What we will do is bring the very highest of standards to the strategic management of all our public assets.

We're going to undertake a thorough review of major provincial assets to evaluate the appropriate role of each asset and to assure their effective and efficient management. That review will include the Liquor Control Board of Ontario, the world's largest distributor of beverage alcohol. Our purpose will be to determine if Ontarians are receiving the maximum benefit from this very significant crown agency. Let me be clear: We will not sell the LCBO, nor will we sell TVOntario, to pay for the ongoing operations of government. We are not looking to sell anything.

It is possible—and I mentioned this in the budget—that our review may identify assets that are not providing enough ongoing value to Ontario but would, if sold, generate substantial revenues that could be used to increase efficiencies and promote economic growth. In that case, we would explore a potential sale on the basis that any revenues generated would be used for the change fund.

All these initiatives point in one direction. They are part of a new approach: budgeting for results. Ontarians

know, and we understand, that increased spending alone does not guarantee better results. That is why we will constantly review the programs we fund against the results they deliver. If a given program doesn't reflect the priorities of Ontarians, delivering desired results for the money that is being spent, we will either find a way to do it better or we will stop doing it altogether. And we will be reporting regularly on our progress toward achieving expected results.

Achieving better results for public services will require a transformation in how we deliver those services. That transformation will require some up-front investment. Community-based health care, for example, will require investment in new technologies and facilities. To that end, our government is establishing a \$1-billion change fund, which I referred to earlier.

Ontarians also expect accountability and transparency from their government. We have made a commitment to a rational approach to balancing the budget and increasing transparency. Accordingly, I have introduced a bill that would replace the Balanced Budget Act with the Fiscal Transparency and Accountability Act. The proposed act would provide a clear set of principles to guide fiscal policy: responsibility, flexibility, equity and transparency. The proposed FTAA would support the objectives of a balanced budget and improve the quality of information in the budget and in other publications.

The government is also committed to demonstrating accountability for the results of government activity. A new approach to planning and budgeting will make government more accountable by integrating government priorities and measurable, outcome-based results into the planning process and reporting regularly on progress. This new approach means that we will focus on the results of spending, rather than the amount of money spent when judging the efficiency of a program.

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We are also leading the implementation of a new financial system, referred to as IFIS, across government. Once fully implemented in the fall, this accrual-based system will mean that for the first time the government will have one financial system right across government.

To expand and update the skills of staff throughout the OPS, the Ministry of Finance's training unit continues to provide training in key areas like accounting, risk management and integrated decision-making.

I will conclude by saying that trying to force a balanced budget this year would have required deep spending cuts that would threaten necessary public services and unduly weaken the Ontario economy.

It is within the context of steady growth and prudent management that we have laid out our plan for steady deficit reduction. The confirmation of our AA credit rating is a real show of confidence in this government's four-year plan to put Ontario's finances back on track. We have a strong, credible fiscal plan in place, and we expect that the rating agencies would review it favourably.

We have also proposed amendments to the Taxpayer Protection Act that would allow revenue measures in the budget. By transforming services and holding program spending growth to less than the rate of growth in tax revenues, we will eliminate Ontario's structural deficit without putting priorities at risk.

Based on our prudent assumptions and after enacting the measures outlined in the budget, we project a deficit this year of \$2.2 billion, down from \$6.2 billion in 2003-04.

This year's one-time elimination of the liabilities from power purchase contracts entered into by the old Ontario Hydro—those costs would be included in consumer bills over the life of the contracts.

As we continue to work through our four-year plan, the deficit will be reduced to \$2.1 billion in 2005-06 and \$1.5 billion in 2006-07, and Ontario's books will be balanced in 2007-08.

We have budgeted reserves throughout the course of our plan to protect against unexpected changes in the economic and fiscal outlook. The reserves for this year are \$1 billion, and to better reflect the uncertainties inherent in our longer-range forecasting, we have increased that figure to \$1.5 billion for the years following.

Over the course of our four-year plan, the accumulated deficit, as a percentage of GDP, is projected to decrease steadily, from 25.3% in 2003-04 to 21.9% in 2007-08.

In closing, I would like to thank the committee for the opportunity to speak before you today, and I am looking forward to your questions.

**The Chair:** Thank you very much, Minister. Our standing orders provide that the official opposition now has up to 30 minutes.

**Mr Baird:** Thank you very much, Mr Chair, and congratulations on your election. Arthurs is a difficult man to beat, so I congratulate you.

Thank you, Minister, for your comments. I also want to thank you on the record for your briefing and introduction of a separate bill with respect to French translation issues and cleanup. It could have been just thrown in the budget bill, and I wanted to publicly thank you for introducing it as a separate bill so it could get proper oversight. It's certainly putting all the cards on the table. It's much appreciated, and I wanted to say that publicly.

**Hon Mr Sorbara:** I think that's going to be it for the compliments.

**Mr Michael Prue (Beaches-East York):** That was more than I expected.

**Hon Mr Sorbara:** No, he's going to be fair. He's always fair.

**Mr Baird:** I've said publicly that he's a very smart minister.

I want to know to whom I'm best to address this question, whether it's you or perhaps—I look at the organizational chart, with you at the head of it. Maybe it's best directed to your director of communications. I wanted to discuss the contract that David Herle, Paul Martin's campaign manager, got with the government. Am I best to direct that to you?

**Hon Mr Sorbara:** I think I'd probably be a good person to start off answering that question.

**Mr Baird:** How much did he make on that—because I want to vote for your estimates here.

**Hon Mr Sorbara:** You want to get details?

**Mr Baird:** Just a number.

**Hon Mr Sorbara:** I'm going to invite my deputy to identify the best person to respond to that question.

While he's doing that, I should make it clear to you that the contract actually was a contract of record with Decima Research. Am I right about that, Deputy?

**Mr Andersen:** The main contract.

**Hon Mr Sorbara:** The main contract was with Decima Research and the arrangements with Earncliffe were done as a subcontract to that.

**Mr Baird:** I'm just looking for how much.

**Hon Mr Sorbara:** Why don't we just put that question on hold for a bit. I know someone has an answer to that question. We'll go on to the next question.

**Mr Baird:** I'll come back to it in a few minutes. I wanted to inquire—I found it interesting that one of your officials, I think it was one of your spokespeople, someone by the name of Rosemary something or other, was quoted in the paper as saying that Decima was directed to hire Paul Martin's campaign manager, David Herle.

**Hon Mr Sorbara:** Well, it's very difficult to identify someone in the ministry as Rosemary somebody.

**Mr Baird:** Quoted as your spokesperson.

**Hon Mr Sorbara:** I think I'm going to have to ask you to find the quote. We'll identify the person and we'll—

**Mr Baird:** Maybe you can tell me. I know you used it in the Legislature. I just wondered, was that subcontract with Decima? Was that directed by you, a member of your staff, a member of the Premier's office, a member of cabinet office or a member of your ministry?

**Hon Mr Sorbara:** We'll get back to you on that with a full report within the hour.

**Mr Baird:** Within the hour? Much appreciated. I know there is a lot of concern.

Maybe I can again ask—I don't know to whom I'm best to ask this: Is it a common practice that you could direct a vendor of record to subcontract work?

**Hon Mr Sorbara:** We'll have someone answer all of those questions for you on the David Herle—

**Mr Baird:** What do you think personally? Do you think that's a good idea?

**Hon Mr Sorbara:** Let me tell you what I think personally. I think—

**Mr Baird:** On the subject of that question.

**Hon Mr Sorbara:** Yes, on this subject. The work that Earncliffe did for us was very effective work. The research they did, the analysis they did, was of the very highest professional standard. I was very pleased with the timeliness and the responsiveness of their work. Their information was invariably accurate, penetrating and to the point, and I was very satisfied. I was advised from the moment we entered into that arrangement that the con-

tractual relations were in accordance with all provisions relating to those sorts of contracts.

**Mr Baird:** Do you think it's a good idea that someone in government direct a vendor of record to subcontract work? You're the chancellor of the exchequer. You're the top dog. The buck stops, literally, with you. Do you think it's a good idea when a vendor of record is directed to subcontract work?

**Hon Mr Sorbara:** Let me say this about it: Historically the Ministry of Finance, under successive finance ministers, perhaps going back to Floyd Laughren but certainly ministers over the course of the past eight and a half years, have exercised that practice and directed those subcontracts and works to specific individuals and specific firms.

**Mr Baird:** If I was advising the new government that was taking power and they said, "What do you think of directing a vendor of record to subcontract work?" what would you say? What can I tell them your personal view is, the Minister of Finance's personal view?

**Hon Mr Sorbara:** I think you could safely say that my personal view is that if the specific contractor were identified as the best to do the particular assignment, and so long as that direction was in accordance with all governing regulations for such contracts, and so long as the vendor of record supported the choice, I would say it was a perfectly acceptable practice.

**Mr Baird:** But as a minister or ministry, you have a selection of five choices, as I understand it, for communications, public relations, public research and that sort of field. You can choose. So if Decima didn't want to subcontract to Paul Martin's campaign manager, you could just as easily go to Environics communications or to another person on that list, could you not?

**Hon Mr Sorbara:** I think that's fair.

**Mr Baird:** Wouldn't this essentially get rid of the vendor of record? If you could just direct—I mean, we could just keep these vendors of record for the next 100 years and you could just direct one of these five people to hire whomever you want.

**Hon Mr Sorbara:** Let me just make it clear to my friend from Nepean-Carleton that Earncliffe was chosen for this assignment based on work that firm had performed completely outside the area of politics, whether national or provincial.

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**Mr Baird:** They provided work to your federal counterpart, Paul Martin, for many years on tendered contracts.

**Hon Mr Sorbara:** And they provided work for a wide variety of private sector contracts, and it was based on the quality of their work outside the realm of politics, whether electoral or public administration. It was based on their work in those areas that the choice was made.

**Mr Baird:** I just found some of your and your colleagues' remarks about other practitioners in that same field rather compelling, the political connection to the governing party getting a contract. That's why I'm asking. I'm not talking about the quality of the work. I'm



not even talking about the company. I'm just talking about the one individual, David Herle.

**Hon Mr Sorbara:** David Herle was not the lead on that contract.

**Mr Baird:** Elly Alboim?

**Hon Mr Sorbara:** Elly Alboim was the lead on that contract, yes.

**Mr Baird:** The two of them worked on it.

**Hon Mr Sorbara:** That's right.

**Mr Baird:** So David Herle is the right-hand man of Paul Martin and Elly Alboim was the left-hand man of Paul Martin? I'm not familiar. I know he's an active partisan for Mr Martin as well.

Did you or your office direct that David Herle or his firm be hired?

**Hon Mr Sorbara:** A decision was made by the ministry to—

**Mr Baird:** Did you contribute to that decision personally?

**Hon Mr Sorbara:** No, I did not.

**Mr Baird:** Did you know of that decision before it was made?

**Hon Mr Sorbara:** Of course I did.

**Mr Baird:** And did your office concur?

**Hon Mr Sorbara:** Of course it did.

**Mr Baird:** Did you suggest it, or did the—

**Hon Mr Sorbara:** No, I didn't.

**Mr Baird:** Did your office suggest it?

**Hon Mr Sorbara:** I'll simply repeat to my friend from Nepean-Carleton that an analysis of a variety of firms was made and the decision was made to go with Earncliffe, based on work that firm had done outside the realm of politics.

**Mr Baird:** I'm fascinated by this analysis that was done. Can you tell me about it?

**Hon Mr Sorbara:** I think I've told you all I need to say about it.

**Mr Baird:** Would it be subject to value-for-money audits by the Provincial Auditor or this committee?

**Hon Mr Sorbara:** Absolutely.

**Mr Baird:** Would you be willing to submit that analysis to the committee so we could look at it? Because I want to vote for your estimates. I just want to—

**Hon Mr Sorbara:** No, you don't.

**Mr Baird:** I do.

**Hon Mr Sorbara:** No, you don't. Let's be—

**Mr Baird:** I worked at the Ministry of Finance for two years and I have a high regard for their talents and abilities. The former deputy was my deputy there, and I have great regard for the officials, and for you personally, and I want to vote for your estimates.

**Hon Mr Sorbara:** You could move unanimous consent to vote for the estimates right now. I wouldn't want to get in your way.

**Mr Baird:** I'm just waiting for those few questions that I asked. Would you be willing to give that analysis to the committee? Are you proud of it?

**Hon Mr Sorbara:** I'd be willing to reaffirm that an analysis of a variety of firms was done and a decision

was made to go with Earncliffe, based on work they had done in areas outside of electoral politics, whether national or provincial.

**Mr Baird:** If I were to go back to Bells Corners—it's the part of Nepean where I grew up and where my constituency office is—and someone were to tell me, "There's no way they're going to give you any of that analysis. It's a bunch of baloney. You'll never get it," what could I say to them? Could I say to them you would give it to us?

**Hon Mr Sorbara:** You could invite me back to Bells Corners and I could talk to them about it directly.

**Mr Baird:** You'd refuse to give that analysis to this committee?

**Hon Mr Sorbara:** I could repeat at Bells Corners what I said here, that the contract was issued on the basis of an analysis of their work. I should tell you that Elly Alboim's sister, Naomi, worked for me as a deputy in this very government, and I had never met Elly before he came and made a presentation to us under this contract. I actually did not know that his sister, Naomi—

**Mr Baird:** A great deputy minister.

**Hon Mr Sorbara:** And she was a fine deputy minister. She served me very well as a deputy.

**Mr Baird:** She stayed at Bells Corners when she was with the Ministry of Citizenship. She actually stayed in Bells Corners, at a very inexpensive hotel.

**Hon Mr Sorbara:** She did? And I haven't yet. You should invite me.

**Mr Baird:** You're invited to meet the constituents.

Going back to that analysis, we wouldn't be able to get a copy of it?

**Hon Mr Sorbara:** No.

**Mr Baird:** Why not?

**Hon Mr Sorbara:** Because you wouldn't be able to get a copy of it.

**Mr Baird:** Are you ashamed of it?

**Hon Mr Sorbara:** No, not at all.

**Mr Baird:** Don't you think the 120,000 good folks of Nepean-Carleton whom I represent—

**Hon Mr Sorbara:** Let me take it this far with my friend from Nepean-Carleton: We will analyze your request and get back to you.

**Mr Baird:** That's much appreciated. That'll go right up there with, "The cheque's in the mail."

**Hon Mr Sorbara:** Either here or at Bells Corners, whichever you prefer.

**Mr Baird:** Thank you.

Any luck on the person who is best for me to talk to? Is your communications director here?

**Hon Mr Sorbara:** Right now you're talking to me, and I think the conversation is going quite well.

**Mr Baird:** That's a contestable concept. Director of communications and corporate affairs branch, Victor Severino—is that individual here?

**Hon Mr Sorbara:** No, I think Victor is not here today.

**Mr Andersen:** No, but we will get the information.

**Mr Baird:** Do you have a rough idea what the contract was worth?

**Hon Mr Sorbara:** We have noted your request for the information.

**Mr Baird:** Do you have any idea what the contract value was? Has anyone talked to you about it?

**Hon Mr Sorbara:** As I've said to you, we've noted your request for information and we will provide that information in due course; my expectation is, as we continue these estimates, tomorrow.

**Mr Baird:** But I just want to know, do you have any idea what it's around? Is it a \$10,000 contract, \$1,000, \$15,000?

**Hon Mr Sorbara:** I wouldn't want to put a figure on the record now, so I am undertaking to provide that information to you in due course.

**Mr Baird:** You're good.

Those requests have been noted, Mr Chair. I wonder whether we could make note of those and, before we vote on them, they could be—

**The Chair:** The minister has assured you on four occasions in the last 20 minutes that he would have it either within the hour or by tomorrow at the latest.

**Mr Baird:** I read with great interest the report prepared by Erik Peters on the review of the 2003-04 fiscal outlook dated October 29. On page 1 he talks of a projected deficit and states, "I express no opinion as to what the actual deficit for the year ending March 31, 2004 will be."

**Hon Mr Sorbara:** That's right.

**Mr Baird:** I wanted to ask you a number of questions. You, with great fanfare, announced a hiring freeze that could save up to \$200 million. How much did you save on that hiring freeze?

**Hon Mr Sorbara:** Let's talk about Erik Peters's report for just a moment.

**Mr Baird:** I've got the report. We talked about it quite a lot in the House. I just want to know, of the \$200 million you said you could save, how much did you save?

**Hon Mr Sorbara:** If I might begin the answer by talking about the report and my response to the report—

**Mr Baird:** I'd be happy to meet with you at 6 o'clock and discuss the report at great length, but I only have a set amount of time. So I just want to know how much—

**Hon Mr Sorbara:** I would be less happy to meet you at 6 o'clock.

**Mr Baird:** We have an \$80-billion budget here, and I just want to know about \$200 million.

**Hon Mr Sorbara:** In response to the Erik Peters report, we took a number of steps. I reviewed those in the fall economic statement. At that point, we launched an unprecedented consultation process in preparation for the budget. If I recall correctly, we announced at the same time that there would be immediate efforts at restraining expenditures, including a hiring freeze.

I certainly will make note of your request to determine exactly how much of that \$200 million you say we

mentioned we saved, and I will undertake to get that information back to you by tomorrow.

**Mr Baird:** You said you'd take note of the request. Would you say it would be reasonable for us to get an answer? This is for last year's books.

**Hon Mr Sorbara:** We are actually here to discuss this year's estimates, but if we have information that is available and appropriate we would deliver that information to you as well, simply because I know of your interest in the history of the ministry as well as the estimates that we're looking at for this year.

**The Chair:** Minister, it's worthy of note that the standing orders do provide for your specific ministry that we can have access to fourth-quarter numbers from the last budget. I think that is part of the area of the question.

**Hon Mr Sorbara:** I'm making note of the request, and we will bring it forward, but they are not contained in the estimates—

**The Chair:** No, absolutely. That's understood.

**Mr Baird:** What was economic growth in the last fiscal year?

**Hon Mr Sorbara:** For that, I think we should invite Phil Howell up to the table and we could have a good, fulsome discussion about GDP.

**The Chair:** Welcome, Phil. Please state your name and your position with the ministry.

**Mr Phil Howell:** Phil Howell, assistant deputy minister, office of economic policy.

The growth for last year: As you know, in the budget we report growth on an annual basis—

**Mr Baird:** The fiscal year.

**Mr Howell:** The fiscal year. I'd have to calculate that. We have the quarterly growth.

**Mr Baird:** I just want to know for last year, fiscal 2003-04, what the GDP was.

**Mr Howell:** OK.

1650

**Mr Baird:** I'll come back to that. I'll go back to the minister, then.

Minister, page 8 of Erik Peters's report talks about "Uncertainties with positive potential," stating the CHST supplement of \$771 million.

**Hon Mr Sorbara:** That's right.

**Mr Baird:** Did you get that?

**Hon Mr Sorbara:** We did. Actually, that money was ultimately included in our budget for 2004-05. Let me ask the deputy to help me on this point. The money was allocated. It was part of a \$2-billion allocation made by the new administration under Finance Minister Goodale.

**Mr Baird:** But you didn't put a dollar of that into last year's fiscal year?

**Hon Mr Sorbara:** I think all of that money was allocated—

**Mr Andersen:** Over 2004-05 and 2005-06.

**Mr Baird:** And none of it was allocated to 2003-04?

**Hon Mr Sorbara:** That's right.

**Mr Andersen:** It's consistent with the legislation that the federal government introduced—the drawdown schedule.

**Mr Baird:** I think Mr Manley and Mr Goodale have been very clear that it could be put into any fiscal year you chose.

**Hon Mr Sorbara:** I was actually at a meeting of ministers of finance with Finance Minister Goodale and all the other financial ministers from across Canada, and the allocation that we made of that \$775 million is completely consistent with the policies for the \$2 billion that was allocated across the country.

**Mr Gabriel Sékaly:** I'm Gabriel Sékaly, the associate deputy minister. If I can answer that question as well, based on discussions with the auditor in terms of our past practice of accounting for money from the federal government—and that was over the number of years in which they had the drawdown schedule in the legislation and it did not include the year in which they made the announcement—this money that was provided by the federal government is over 2004-05 and 2005-06. It's consistent with past practice. It's consistent with more than half the jurisdictions in Canada. The federal government accounts for it differently, and you'll have to speak to their auditor on that. But based on discussions with our auditor and the past practice from the supplement we got a couple of years ago, it's the same practice, the same way of—

**Mr Baird:** But it was included in revenue. The Ministry of Finance included it as revenue in the 2003-04 budget.

**Mr Sékaly:** The federal—

**Mr Baird:** The provincial government, the Ontario Ministry of Finance.

**Mr Sékaly:** No. We included it in 2004-05 and 2005-06—

**Mr Baird:** You had it phased over three years.

**Mr Sékaly:** —over two years. We phased it over two years.

**Mr Baird:** Well, I noticed that on page 8 of Mr Peters's report, it says, "Uncertainties with positive potential," and he specifically cites 2003-04.

**Mr Sékaly:** Because at that point in October-November, when he was writing this report, we were unsure of how the federal government would be providing this money to the provinces. They did not—

**Mr Baird:** When Mr Chrétien makes a commitment, I take that to the bank.

**The Chair:** Mr Baird, would you let him finish, please?

**Hon Mr Sorbara:** Let's be really clear on this, I tell my friend from Nepean-Carleton: Mr Peters's report was made in October of last year; he suggested the uncertainty because there really was grave uncertainty about the availability of those funds. Let's remember the political climate and the political events at that time. It was a commitment made by an outgoing Prime Minister with an outgoing finance minister, with a leadership convention coming up in December, I think it was, which would choose a new Prime Minister who would then choose a new finance minister who would then present a budget. It was our view that we would not include those

revenues in any of our forecasts until we knew who was in power and what kind of budget they would be presenting. Ultimately, the decision of Mr Manley's successor was to structure the payment of the \$2 billion in a manner that required us in Ontario, given the accounting standards we use, to include those funds in two successive financial years.

**Mr Baird:** I know they booked it off as spending last year.

**Hon Mr Sorbara:** And that is why the former Provincial Auditor referred to it as an uncertainty. It continued to be an uncertainty until a new government was sworn in and a new federal budget was placed before the House of Commons. Ultimately, finance ministers met to agree upon the allocation of those funds. It would have been inappropriate for us to allocate those funds in any manner other than the accounting principles that are established by the Public Service Accounting Board, which governs the way we determine how we should allocate revenues and in which fiscal year.

**Mr Baird:** I'll move on to another question.

**Mr Sékaly:** I'm sorry. Can I just also—on page 5 of Mr Peters's report, he's very clear that the confirmation of a surplus was made from the federal government. He goes on to say, "In addition, the terms of this CHST supplement would have to vary significantly from previous such supplements for the province to record it as revenue for 2003-04." So he's very clear in his report about some of those conditions.

**Mr Baird:** So it would differ from previous. You said it was always done the same, though.

**Mr Sékaly:** No, I said we've done it the same way and that's why we booked it over a number of years. It has followed the same pattern, as outlined in Mr Peters's report.

**Hon Mr Sorbara:** One other point on that, if I might, Mr Chair—I know that my good friend from Nepean-Carleton would like to be obsessed with whether or not revenues from the national government are allocated to one fiscal year or another. Frankly, I don't think the people of Ontario care very much about what accounting standards they use. I think the people of Ontario are glad that the national government made that allocation and that those funds assist us in creating stronger health care programs in Ontario. I think the people of Ontario and Canada are looking for the commitments—

**Mr Baird:** OK. Chair?

**Hon Mr Sorbara:** —that the Prime Minister has made post-election to strengthen that system.

**Mr Baird:** Sorry. I'd like to move on, Chair.

**Hon Mr Sorbara:** I want it on the record that I'm looking for those commitments as well to be fulfilled after the campaign is over.

**Mr Baird:** Page 7 of Mr Peters's report says, "The Ministry of Finance has no information specifying which other assets were to be sold." Could I ask your deputy or any of your assistant deputy ministers: You had no information on any assets that were to be sold?

**Hon Mr Sorbara:** Well, look, I think it is unbecoming to question the authenticity of Erik Peters's report.

**Mr Baird:** I'm not questioning the authenticity of it. I just wanted to ask your officials.

**Hon Mr Sorbara:** No, with respect, my friend—

**Mr Baird:** I like Erik Peters. I think he's a great guy.

**Hon Mr Sorbara:** And I know that he speaks very highly of you as well.

**Mr Baird:** He does. He's from Nepean, near Bells Corners.

**Hon Mr Sorbara:** That's not the point. You seem to be questioning—

**Mr Baird:** I don't question his report. I don't question his competence. I'm just questioning—Erik Peters prepared his report based on the information that the Ministry of Finance provided.

**Hon Mr Sorbara:** And I'm going to ask the deputy to answer that question in a moment, but just as a preamble, I want to put it to you and to the people who are watching this committee that in the budget presented by Janet Ecker in March 2003, she included an element in the budget, a revenue element, of some \$2 billion coming from asset sales. In effect, what she did was present a budget that was not balanced, that was in deficit, that violated the Balanced Budget Act and, in order to plug that hole, she included asset sales of some \$2 billion so that ultimately she could present the budget as balanced. The fact is—

**Mr Baird:** My question was about the information provided to Mr Peters.

**The Chair:** Gentlemen, please. Mr Baird has asked a specific question of one of the staff. Minister, if you'd allow the staff to respond to the question that deals with the gap.

**Hon Mr Sorbara:** I'm going to encourage the staff to respond. I just want to take exception to—

**The Chair:** And that's on the record in lengthy detail. I'd ask the deputy to respond.

**Mr Baird:** My question is, what information was provided to Mr Peters with respect to asset sales?

**Mr Andersen:** I'm actually going to ask Gabe Sékaly to answer that question. It predates my time in the ministry.

**Mr Sékaly:** We provided Mr Peters with all the information related to assets that the government was undertaking in terms of sales, and that was basically Teranet, as outlined—

**Mr Baird:** OK. I apologize. His report says, "which other assets were to be sold," not which ones were being undertaken. I'm questioning the information that was provided to Mr Peters.

**Mr Sékaly:** We provided Mr Peters with the information regarding asset sales, and we had at that point in time no other assets that had been identified to be sold, as he states.

**Mr Baird:** You had no information on any assets which were to be sold other than Teranet?

**Mr Sékaly:** That's correct.

**Mr Baird:** You had no other Hydro assets that were listed to be sold, Hydro generating assets?

**Mr Sékaly:** There were, if I recall correctly, a number of discussions. There was no finalization of any—I mean, you're asking about the deliberations of a previous government. Obviously, in terms of deliberations of previous governments, there are issues that are of confidence related to that previous government that, as a civil servant, I can't get into.

**Mr Baird:** I guess my concern—and it's nothing personal—is that Mr Peters was given specific information and was not given other specific information, which he drew conclusions on. There were specific proposals with respect to asset sales that had been discussed, that had been presented to the executive council and that had been approved by the executive council, and Mr Peters was not provided with that information. Thus the public relations strategy used by the provincial government was based on a report which they knew had false components. This is something that's important to me.

1700

**Hon Mr Sorbara:** If I might just interject here, if the member himself has information about specific proposals for specific asset sales, and he is telling us now that he was part of cabinet deliberations that discussed specific proposals to sell specific assets under specific terms, so long as you're breaching your oath of cabinet secrecy, I would invite the member, I would encourage you to put additional information on the table to let us know what those assets were. I should tell him that I've now been the minister for some eight months, almost to the day, and there has been no information come to me through the ministry or any official of the ministry suggesting that there was specific analysis to sell specific assets. Again, if the former minister is now deciding that he is going to make public discussions that he had in cabinet, let him give us the details and we'll continue the analysis.

**Mr Baird:** I guess I'm just suggesting that Mr Peters came to conclusions with not all the information. He was looking at the 2003-04 fiscal year, and anything that made the previous government look bad was readily available to him, but the opposite side wasn't.

**Hon Mr Sorbara:** Once again, I invite you to put it on the record of these estimates.

**Mr Baird:** Like you, we'll come back to that. Do we have the GDP number yet?

*Interjection.*

**Mr Baird:** It will be here in a second?

**The Chair:** Excuse me. Mr Baird, gentlemen, none of this is going in Hansard. If you're going to have a conversation, you can do it in the hall or you can do it in Hansard, one or the other.

**Mr Baird:** OK.

**Mr Howell:** We'll have that information in a moment. We need the 2002-03 fiscal year base, and I don't have the 2002 quarterly numbers with me in order to calculate it.

**Mr Baird:** We'll get that for tomorrow's meeting?

**Mr Howell:** Probably soon.

**The Chair:** Mr Baird, you have about five minutes left.

**Mr Baird:** Any news on the communications stuff?

**Hon Mr Sorbara:** We'll have that later in the day, or more likely tomorrow.

**Mr Baird:** I wanted to refer to your budget speech. In it you counted as revenue \$3.9 billion with respect to income from the liability—

**Hon Mr Sorbara:** Elimination of the liability arising from non-utility generators.

**Mr Baird:** I take no exception with the accounting treatment of that; it's fair and appropriate, as you mentioned in the House. What I do take exception to is that money being spent in the fiscal year. How is that different from selling assets for operating funds?

**Hon Mr Sorbara:** It's very, very different. For you to suggest that we have spent it in the year is simply to ignore the way in which budgets are made. We have expenditures of a particular amount for this year. We have revenues of a particular amount for this year. The difference between the two represents the deficit for this year. The accounting treatment when we eliminate the liability for the non-utility generating assets is very significant indeed. The accountants say, "You are to bring those revenues back into income in the year in which you make the decision that will result in"—

**Mr Baird:** I understand and take no exception to that. What I take issue with is your spending it. You should have brought a \$3.9-billion surplus.

**Hon Mr Sorbara:** No, no. What you take exception to is the fact that we have actually determined in this budget to make significant new investments in health care and education.

**Mr Baird:** I don't think anyone is taking exception to that.

**Hon Mr Sorbara:** If you take exception to expenditures, then you must, by virtue of what you're saying, be taking exception to the expenditures we're making to—

**Mr Baird:** I take exception to Enron economics. I take exception to putting \$3.9 billion as revenue when not a single dollar of that will make its way into the consolidated revenue fund, and next year we'll have to dig ourselves out of a \$3.9-billion hole.

**Hon Mr Sorbara:** My friend said a few minutes ago, Mr Chair, that he actually understood the accounting treatment, and then he suggests that the accounting treatment is inappropriate. I'll just completely ignore that line of questioning, OK? The accounting treatment requires us to bring those funds into revenue when we make the decision to—

**Mr Baird:** Why would you then not run a \$3.9-billion surplus?

**Hon Mr Sorbara:** Because we were left with a very significant deficit in public services. We chose in this budget to make significant new investments in health care and education to start to turn around the quality of those public services. Certain of those revenues are generated by way of the accounting treatment for the recovery of liabilities in the area of non-utility gener-

ators. There is nothing mysterious or difficult to understand about that.

**Mr Baird:** But the operating deficit would essentially be in the order of \$6 billion.

**Hon Mr Sorbara:** If we had not taken steps to recover those liabilities, the operating deficit this year would be in the area of \$6 billion. That's right.

**Mr Baird:** And we don't fully recover that money until 2048.

**Hon Mr Sorbara:** We fully recover the liability when we make the decision to treat—

**Mr Baird:** Do you recover liability when you don't get a dollar, when not a dollar comes into your hand? You'll recover that as a liability?

**Hon Mr Sorbara:** I am going to invite my friend to return to accounting class, to have a basic understanding of how these sorts of liabilities are treated. But before we do that—

**Mr Baird:** I'm going to remind you to return to Houston and look at what happened to Ken Lay—\$3.9 billion as revenue.

**The Chair:** Final question.

**Hon Mr Sorbara:** It's just absolutely objectionable and unacceptable for my friend to make that analysis.

**Mr Baird:** I don't know a single commentator who has looked positively on this issue. I take no exception with your making the \$3.9 billion as revenue. What I do take exception to is your spending it.

**Hon Mr Sorbara:** I'm telling my friend that that is a cheap, worthless political shot and we should get on with these estimates.

**Mr Baird:** But we have a minister who comes before the committee and says, "I'm not going to answer questions."

**Hon Mr Sorbara:** No, absolutely not.

**Mr Baird:** You said that virtually verbatim two seconds ago.

**The Chair:** Gentlemen, let's try to keep this on a—

**Hon Mr Sorbara:** I agree with you, Mr Chair.

**Mr Baird:** This is our opportunity to hold you accountable. I can appreciate that that may not be the joy and bliss you might have expected it to be, but you make these difficult decisions and you're subject to accountability on them.

**The Chair:** Thank you very much. I recognize by the clock that I am moving the microphone over to the third party. I'm in your hands as to who wishes to lead off. Mr Prue.

**Mr Prue:** Surely, but I think some of the members of our fine bureaucracy finally have those answers. Is that what I understand from your coming to the table?

**Mr Sékaly:** No, I was going to—

**Mr Prue:** All right, then I will proceed on another line of questioning. The famous health tax: Is it a premium or a tax?

**Hon Mr Sorbara:** It is a tax under the Income Tax Act. It is a tax which is described in our bill as an Ontario health premium. It has some characteristics of a premium; it has some characteristics of a simple tax. I

think the nomenclature is not particularly relevant, but I certainly would entertain further questions on it.

**Mr Prue:** No, I think it is relevant to people such as those union members who have contracts that say premiums are paid by the employer. Are these eligible as premiums?

**Hon Mr Sorbara:** No. In that respect, Michael, they're not eligible as premiums. Some charges under the Income Tax Act are called levies. I think the previous government implemented a tax that was described as a levy. The nomenclature isn't particularly important. The important point to understand here is that this is not a premium in the sense that failure to pay the premium disqualifies you from service. Failure to pay the premium is a violation of the Income Tax Act.

One of the reasons we turned to the Income Tax Act as a mechanism to implement the Ontario health premium was because, first of all, it's a system that is readily available and would reduce to a very low level our costs of collection. Secondly, the income tax system is progressive, and we wanted to use the stepped system that the Ontario health premium has and put it within the context of the Income Tax Act. But to be clear and straightforward on its eligibility as a premium under the union contracts you refer to, it is not. It is not a premium for those purposes, and it's not a premium in the sense that one needs to pay the premium in order to be eligible for the service.

1710

**Mr Prue:** I would assume from that that it's not a premium a person or a group of people in a union could negotiate to include in a collective agreement, as they did prior to 1989—that the employer shall pay my \$300, \$600 or \$900 premium this year.

**Hon Mr Sorbara:** Let's make it clear: The liability for the Ontario health premium is an individual liability under the Income Tax Act. If an employer and an employee want to negotiate and reach an agreement on adjustments to salaries and benefits, taking into consideration the fact that the individual, after July 1, is responsible for this premium, employers and employees are free to do that.

**Mr Prue:** You're saying a third party can pay the premium?

**Hon Mr Sorbara:** Well, in the sense that you have a tax liability, if you can arrange for a third party to pay that tax liability for you, that's not a particular problem. In a sense, it would become additional income or a taxable benefit.

Let me be very clear: It's not like a benefit, say, of providing a company car, which is a taxable benefit and must be included in the overall income of an individual employee. For example, if as an employee of a company you're provided with a residence or a clothing allowance, that represents a taxable benefit for which tax is payable. This is not a benefit in that sense because it is a tax liability of an individual based on that individual's income.

**Mr Prue:** It's just a little convoluted for me, but I'm going to move on.

**Hon Mr Sorbara:** No, it's actually not. It's actually quite simple.

**Mr Prue:** All right. Let's move on to something else. You're raising about \$1.6 billion this year on this health tax. I don't want to call it a premium any more, because you've just convinced me it's not.

**Hon Mr Sorbara:** If you like, we can call it a health tax.

**Mr Prue:** OK. You're also going to receive—and tell me if I'm wrong, or maybe the bureaucrats can—about \$725 million from the federal government expressly for health. My math says that's nearly \$2.4 billion, is that right? This is additional money that was not available last year.

**Hon Mr Sorbara:** Mr Chairman, if you could just bear with me, I think probably we could invite Gabe back up to the table to talk about it, just so that we can get to the individual figures. If my memory serves me well, the premium will generate \$1.4 billion next year.

**Mr Prue:** My actual figures are \$1.635 billion. Maybe the bureaucrats—

**The Chair:** That's why we have Gabriel here.

**Mr Prue:** Yes, that's why we have him.

**Mr Sékaly:** The health premium in 2004-05, as shown on page 70 of the budget papers, is \$1.635 billion. That is there. The additional federal monies—I'm just going to look that up. It's approximately \$740 million in additional federal money.

**Mr Prue:** Even more than I thought. OK. So if I add those together in fast math, that comes to \$2.375 billion.

**Hon Mr Sorbara:** This year.

**Mr Prue:** This year. Health spending, according to what I can read in this same book, is going up \$2.160 billion. Is that number correct?

**Hon Mr Sorbara:** That actually is the Ministry of Health and Long-Term Care's increase for 2004-05.

**Mr Prue:** Between that we have about \$200 million plus.

**Hon Mr Sorbara:** I think my friend's problem is in your lack of understanding—

**Mr Prue:** Oh, I think I understand.

**Hon Mr Sorbara:** Of the—

**Mr Prue:** Mr Chairman, you're the Chairman.

**The Chair:** Mr Prue hasn't even formulated his question. I know you're being extremely helpful to the members, but would you allow Mr Prue to ask his question—

**Hon Mr Sorbara:** Sure, I will do that.

**The Chair:** You can correct him later, but he hasn't even finished his question.

**Mr Prue:** In the House over the last few days many suggestions have been made that this more than \$200 million is going outside the envelope of what was traditionally called health. Much was made of sewers, sports injuries and other things.

**Hon Mr Sorbara:** Right.

**Mr Prue:** Is that where the money's going, to this non-traditional area?

**Hon Mr Sorbara:** The answer is no. The Ontario health premium will all go to incremental expenditures in the Ministry of Health and related ministries for health over the course of the four-year plan.

Where we get into some difficulty is with the federal transfer. You should understand that the federal transfer will do a variety of things. Down the road, we don't know what the federal transfer is going to be, we don't know who's going to be governing, we don't know their policies. Take this year, for example. A part of that federal transfer goes to our basic health care costs. This is consistent with the principles established by Roy Romanow that the federal government should be paying 25% of agreed-upon health care costs. Currently, that number is about 16% or 17%. So the federal government has a way to go to make up their full contribution to our basic health care costs.

The other thing that is to be noted about the federal government's participation in these costs is that often their transfers to provincial governments are very specific transfers with very specific conditions attached. You can't simply say, "Well, you're getting that money and you're getting the health care premium, so overall you're getting this much more."

The third thing to note is that some of the federal government transfer does go to what your party, and I think all parties, describe as the broader determinants of health. For example, if you go to page 44 of the budget, you'll note that there was an expenditure in our budget this year of \$25 million for children's mental health. It says in budget paper A, designed to "enhance community-based programs serving children at risk." This is not part of an expenditure that is currently undertaken in the Ministry of Health and Long-Term Care, but it is every bit as important an expenditure on health care as is an expenditure for additional higher-quality services in long-term care or a grant to build a community health care centre or funds to expand the number of family health teams. That it exists outside the four corners of the Ministry of Health and Long-Term Care probably isn't very relevant.

**Mr Prue:** Did the federal government put any conditions on their \$740 million, either to allow or not allow the expenditures outside the traditional envelope?

**Hon Mr Sorbara:** I can't speak to the specifics of that 775. Gabe, I don't know if you can or whether you need to hold that question over to the estimates of the Ministry of Health.

**Mr Prue:** The reason I'm asking is, you made the suggestion that the Ministry of Health earmarked some of it for specific things, and I haven't heard that they specifically allowed the money to be spent for sewer construction, children's mental health or anything else. I'd like to know, did the federal government specifically say that any part of that \$740 million could be expended outside traditional health care?

**Mr Sékaly:** There are different agreements with the federal government, some of which are for general usage relating to the CHST transfer—

**Mr Prue:** Which means?

**Mr Sékaly:** The Canada health and social transfer, which is just a general amount of money given to provinces, and the provinces decide on how best to utilize that within the range of programs that make up social services, health and educational programs.

There are other, more specific, programs that the federal government also has; for example, the primary care transition fund. The money would then have to be used for primary care, which we would, or immunization or things like that. Those are specific programs that the federal government has entered into with provinces, and we do utilize that money for those specific reasons, as per agreements with the federal government. So it's a mix of things.

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**Hon Mr Sorbara:** Might I just add further to that, Mr Chair?

**The Chair:** Only if the member wants to hear further. Are you satisfied with that answer?

**Mr Prue:** No, but I wanted to go on, because you can only ask so much in a half hour.

**The Chair:** Fine.

**Mr Prue:** I'd like to go on. Trying to get an answer here is pretty tough.

**Mr Baird:** He's good.

**Mr Prue:** He's very good.

**Hon Mr Sorbara:** The short answer is that in 2003 the federal government made specific allocations; for example, \$16 billion over five years for primary care reform, home care and catastrophic drug care coverage. They also allocated \$1.5 billion over three years for a diagnostic medical equipment fund.

The short answer is, some of the money comes without strings and some of it comes with very specific conditions attached. If you like, tomorrow we could bring you very specific analysis of the \$775 million to show you what amount applies to what conditions and what amount has no conditions attached.

**Mr Prue:** Just a last question on this and then I'm going to go on. I was very curious, since you include sewers and some other stuff, that you didn't count the Ministry of Labour's health and safety spending as a health expenditure. That seemed to me the most logical one, yet you put that outside the envelope. Can you tell me why?

**Hon Mr Sorbara:** There is no envelope in that sense. The information that we provide on page 44 of budget paper A is simply illustrative of year-over-year increases in programs contributing to healthier Ontarians.

Perhaps we should have included some work done by the workplace health and safety agency. The work of the Workplace Safety and Insurance Board in promoting health care is very important, indeed. It may well be that we didn't include that because of the fact that expenditures in health arising from workplace accidents are separate and outside the budget of the Ontario government and the Ministry of Health and Long-Term Care. In other words, if you receive service at Toronto General

Hospital for a broken leg as a result of a workplace accident, the expenditures incurred in that accident are covered by premiums paid by employers under the Workplace Safety and Insurance Board funding system. Maybe that's why those who wrote budget paper A chose not to include those expenditures.

**Mr Prue:** I'll go on to another line of questioning. This has to do with the whole fairness of your tax. You tell me if I'm wrong about this. I've tried to do a little bit of research, back to the Harris years. As you know, I was only here one week when he quit.

**Hon Mr Sorbara:** I think that's why he quit—the fact that you were elected.

**Mr Prue:** I think I might have had something to do with it, yes; I can't say I know the man very well.

What we understand happened in those days is he had a whole bunch of tax cuts, particularly to the well off. People who earned \$100,000 received a \$5,100 tax reduction from the Harris tax cuts. Those earning \$125,000 received \$6,300. Those earning \$150,000 got \$7,400, and those earning \$200,000 got a \$13,150 tax cut. Do you not think this was a good place—these guys are rolling in dough, obviously, from the previous years—rather than the way you went, to tax a single mother with a couple of kids who earns \$30,000 a 24% tax increase? Did you not think this was a more logical thing to do? Did you even look at this option?

**Hon Mr Sorbara:** The short answer is that we looked at a wide variety of options. What you should know is that we ultimately designed a premium that would be fair and equitable across all income levels. I know that your party has tried to make a lot out of this increased burden on low-income families, and I'm very sensitive to that. That's why one does not begin to pay any premium at all until one has a taxable income of \$21,000. At that level, the premium is precisely \$60 per year.

**Mr Prue:** Five bucks a month, yeah.

**Hon Mr Sorbara:** I should tell the member that our higher-income earners do pay a very significant amount of tax. If you earn, for example, \$150,000 in Ontario, you pay close to 40% or 45% of all your income in tax. So if you make \$150,000, you're paying in the area of \$60,000 or \$70,000 in tax every year. That tax burden remains competitive with other jurisdictions in Canada, but at the very stretches of competitiveness. By contrast, if one makes about \$25,000 per year in Ontario, one pays about 9% or 10% of one's income in income tax. So, for example, \$25,000: 10% is \$2,500. That's called a progressive tax system.

The reality in Ontario, after we apply the Ontario health premium, is that we still have a very competitive and the most progressive tax system in Canada, when you add up income tax and the health premium, for all income earners from \$20,000 into the \$55,000 or \$60,000 range. Thereafter, our tax system starts to become a little bit less competitive.

What does that mean in practical terms? It means that if you put more tax burden on someone earning \$150,000, his or her tax burden becomes so uncom-

petitive that he starts to think, "It's better to move to Alberta or it's better to move to California or it's better to move to Boston or it's better to move to Michigan, because I'm going to pay less taxes there."

We remain competitive at the lower levels. We're at the limits of competitiveness at the higher levels.

**Mr Prue:** Is that the rationale you used in order to come up with this tax system that many have called unfair? I need to know why you did it.

**Hon Mr Sorbara:** It's one of the elements that we considered to make sure that our tax system remained fair to all taxpayers, so the maximum burden at the highest income levels is \$900. You have to remember that this is the only jurisdiction in Canada that has a premium system that is specifically geared to income.

**Mr Prue:** But there are only two others that even have this kind of tax, and they're both pretty right-wing provinces. You're emulating Alberta and BC, although you might be doing it just a little bit more fairly.

**Hon Mr Sorbara:** No, we're not emulating either of those provinces. We created a unique health premium in Ontario to give us the revenues to make the investments, that I think you support, in the area of health care.

**Mr Prue:** Did you look at other forms of revenue? I've talked about, and other people have talked about, the dedicated health tax, the EHT, the employer health tax. Isn't there an exemption on the first \$400,000 in payroll under this tax?

**Hon Mr Sorbara:** Oh, yes there is and—

**Mr Prue:** If there's an exemption, why didn't you simply abolish that?

**Hon Mr Sorbara:** The answer is that we looked at a wide variety of revenue mechanisms and we determined that the Ontario health premium, as we created it and proposed it in the legislation that I introduced yesterday, was the fairest.

I know your party has had a lot of questions and a lot of suggestions that we should have changed the structure of the employer health tax so that we start taxing businesses with payrolls of under \$400,000.

**Mr Prue:** No, I don't think we've ever said that. What we've said is that big companies like General Motors, Ford, Bell Canada or the big insurance companies get the \$400,000 exemption too. Why?

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**Hon Mr Sorbara:** Because the exemption, as it's currently structured, exempts the first \$400,000 of it.

**Mr Prue:** Why?

**Hon Mr Sorbara:** Because that is the way to protect small and medium-sized businesses in this province. We also exempt self-employment. I know you would like to tax everything that moves, to find a way to extract funds from a wide variety of sources. But frankly, as a Minister of Finance, my responsibility is to make sure that we have a competitive and fair tax system as well. The \$400,000 exemption protects small businesses from an undue burden of taxation and is very broadly supported right across the province by commentators from the right, the left and the centre.



**Mr Prue:** They could not be protected based on the amount of income they make or the number of employees they have? The same exemption has to be given to giant multinational corporations as well?

**Hon Mr Sorbara:** We will obviously examine your suggestions very carefully.

**Mr Prue:** OK. How much time do I have, Mr Vice-Chair?

**The Vice-Chair (Mr John O'Toole):** There's about five or six minutes left.

**Mr Prue:** Then I'll go on to my last line of questioning. You have projected a \$2.2-billion deficit for this year, and we heard earlier about the \$3.9 billion less in revenues because of the NUGs, the one-time-only—what my friend who is not here now referred to as an Enron accounting trick. Can you tell me, does this have consequences for out years, for the next couple of years?

**Hon Mr Sorbara:** Does the revenue generated by recovering the liabilities from the non-utility generators have consequences?

**Mr Prue:** Yes. You're taking all the money in one year. Does it have any consequences for the budget numbers for the coming years?

**Hon Mr Sorbara:** Not particularly in the overall revenues and expenditures. There are changes to the way in which we bill for electricity. Those funds are ultimately recovered through electricity rates, but there are no specific consequences for the overall revenue or expenditures of the province.

**Mr Prue:** My reading from page 12 shows that—

**Hon Mr Sorbara:** I'm going to ask the deputy to comment further on that.

**Mr Andersen:** Given this item came up before, maybe we can do some clarification. I'll ask the controller of the province to come up and explain how the elimination of the liability works and how it ties to ensuring that customers are paying the true cost of electricity.

**The Vice-Chair:** Would you mind stating your name for Hansard?

**Mr Robert Siddall:** Robert Siddall. I'm the provincial controller for the province of Ontario.

With respect to the comments that were made previously, there is no impact in terms of, once we extinguish the liability, what happens is that we no longer have to provide cash in future years to pay back that liability. So in terms of a simple answer to the question of what happens with the liability in future years, the liability is extinguished by the changes in legislation that we're bringing forward, such that it will be charged to the ratepayers of electricity in the future and the province no longer has a liability on its books for the amounts involved.

**Mr Prue:** So the ratepayers are going to end up paying higher costs to get rid of the government liability?

**Mr Siddall:** The ratepayers are going to have those costs that were previously set up in that liability passed on to them.

**Mr Prue:** OK. I think we all understood that.

My reading of the budget on page 12 is that the Ministry of Health only has a \$600-million increase in funding in 2005-06. How does that compare with previous years?

**Hon Mr Sorbara:** It's significantly lower than the increase between 2003 and 2004.

**Mr Prue:** Health care went up \$1.9 billion between 2001 and 2002, \$2.5 billion between 2002 and 2003, and \$2.1 billion between 2003 and 2004, if I have my numbers right here. Would you say that's right? And now it's going up only \$0.6 billion for next year. Why is that?

**Hon Mr Sorbara:** Mr Chairman, Mr Prue has been a mayor of a significant municipality. He understands the requirements of actually paying your bills. One of the things that has not generated—

**Mr Prue:** And paying down the debt.

**Hon Mr Sorbara:** And paying down the debt as well.

I think one of the things that has not been well understood in this budget is that we are putting in place a very rigorous degree of financial controls to start to bring down the overall cost of government. You know, and might want to admit during these estimates, that we simply can't allow the cost of health care in the province to grow at 6% and 7% and 8% indefinitely and expect that we are going to be able to pay our bills when our revenues are growing at 3% and the economy is growing at 3.3%.

So, yes, if you do the math, you'll see that overall the expenditures in the Ministry of Health and Long-Term Care will grow, on average, at a rate of 3.5%. That is lower than the historic rates of growth in the last three years of the previous government's expenditures. We're very up front about that. We are going to tackle the exploding cost of health care in Ontario. We have to bring down the rate of growth. We cannot allow one ministry or one activity of government to eat up increasingly large portions of the revenues that people in Ontario pay in the form of taxes. So, yes, next year, in the absence of allocations which might come from an extended change fund, what we've allocated in our four-year plan are additional expenditures of some \$600 million.

**Mr Prue:** Just on that, I want to figure out where you're going to for \$600 million, because last year acute services went up \$900 million, doctors went up \$450 million and the drug plan went up \$250 million. If my numbers are right, that's \$1.6 billion. You're forecasting spending \$1 billion less. Where's that money going to come out of: the hospitals, the doctors, the drug plan? What's going to happen to them?

**Hon Mr Sorbara:** There will be a variety of transformation mechanisms which will collectively help us move health care from a hospital- and doctor's-office-oriented system to a community-based system. I can't give you chapter and verse as to where we will make those savings in the next fiscal year. Suffice it to say our plans include reductions in the rate of growth of expenditures that allow us to meet the targets we've set out in the four-year plan that is represented in the budget.

**Mr Prue:** So people can expect target reductions of about \$1 billion, unspecified at this time, in what normally would have been spent in their hospitals, doctors, acute care and drugs?

**Hon Mr Sorbara:** It's not fair to describe those as reductions when the expenditures will increase. The rate of growth of the increase will not match the rate of growth this year. We are going to get this thing under control. I don't think it's fair to characterize it as reductions. The rate of growth will be moderated, yes.

**The Chair:** Final question, Mr Prue.

**Mr Prue:** One more? OK, let's go on. Also on page 12, ministries such as training, colleges and universities are flatlined in 2005-06, and then you went out and appointed Bob Rae to look at the future. I don't know how he's going to do it without any money. There are many ministries, as many as 15, that will either be flatlined or, due to inflation, by 2005-06 will actually see reductions of up to 12%. What kinds of services could people expect to no longer see from this budget and the following years?

**Hon Mr Sorbara:** What people can honestly expect to see is a government that is under transformation. I tell my friend, Mr Chair, that if we do not bring down the rate of growth of government in this province, we will do serious damage to the quality of our economy and the quality of our public life. The previous administration—

**Mr Prue:** You're sounding just like them, by the way.

**Hon Mr Sorbara:** No, I'm not at all. The previous administration was driven by one set of policy initiatives; that is, cut taxes further and further. They did serious damage to the revenue base. I've made this point in the Legislature, but it's worth making again. Over the course of the last three years of their time in office, our economy was growing at a pace of about 2.5%. At the same time, the revenues that came in from this province's tax revenue mechanisms actually went down by 0.6%. So you can see in that how they change the tax structure to shortchange the province of revenue, even when the economy is growing.

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Look, we all know—anyone who has to do with government, whether you've been a mayor or a Minister of Finance—if the economy is shrinking, your revenues will shrink. That's inevitable. But to have your revenues shrink while your economy is growing is simply to describe a system that is totally out of whack.

You say we sound like the previous administration. I have to tell my friend what a difficult decision it was, given our campaign commitments, to acknowledge publicly that we had to raise additional revenues, that the province was on a road to a financial crisis. That was the most difficult decision I think we'll ever have to make. So we are not on the same course as the previous government, but we do have to manage down the rate of growth of our expenditures. And if you were the Premier wearing an NDP stripe or if you were a Minister of Finance wearing a Liberal stripe, you would have had to acknowledge the same reality.

The previous administration, simply in their last three years, let expenditures just get completely out of control. They tried to spend their way back into the good books of the people of Ontario. It didn't work. But expenditures grew by 22% over the last three years. That was irresponsible. We can't let that happen. We cannot allow ourselves one iota of irresponsibility. The situation is too serious.

We have made a commitment to balance our expenditures and our revenues. We've given ourselves four years to do it, but it's going to take some rigorous cost-cutting in some areas. It's certainly going to require me to say no on expenditure requests 10 times for every time I say yes.

**The Chair:** Thank you, Minister. In the balance of the time allocated for today, we have an opportunity for your rebuttal and for responses to questions, where your staff are prepared to respond. I need four minutes of the committee's time, before we adjourn at six, to do some committee business.

**Mr Roozen:** With respect to the question around the contracts raised by Mr Barrett, that information will be brought to the clerk tomorrow.

**The Chair:** Thank you.

**Hon Mr Sorbara:** Why don't I just suggest that we leave all of those responses, and we'll begin tomorrow with a series of responses based on questions that arise today.

**The Chair:** I believe we've asked for that information in writing so we can have those responses and it can be circulated to every member. That's the custom. I'll allow you your time now.

**Hon Mr Sorbara:** There was some discussion about me forgoing my rebuttal, and I would be very happy to do that—

**The Chair:** I don't have a motion for that.

**Hon Mr Sorbara:**—then we would cut that from the overall time.

**The Chair:** I gave you some additional latitude in your opening statement, Minister, so I'll ensure that you have the time in accordance with the standing rules. If you want to yield it or modify it or allow for questions from your caucus, it is your 20 minutes. Of your 15 minutes, I need four or five minutes of committee time because we haven't ordered up some agenda items.

**Hon Mr Sorbara:** OK. I don't have any comments in rebuttal. I think we should just continue with questions.

**The Chair:** Fine. Let's do that. I'll start a questioner's list here and then we'll—well, I'll let the Liberals go first.

**Mr John Milloy (Kitchener Centre):** On a point of clarification, how does this work? We get the floor for how many minutes to ask questions?

**The Chair:** That's part of what I needed to order up our business for, to determine the length of rotation. That has not been done. I don't wish to waste the Minister's time while we argue that out.

The Minister has graciously agreed to field questions. I've acknowledged you; ask a question. I will move you

along in rotation until six o'clock, when we can order up the balance of our time, because we have not resolved that question. Unless you want to take 10 minutes and iron it out now, but I don't want to waste the Minister's time.

**Mr Milloy:** No. I'll begin, then.

I guess, Minister, maybe to pick up where you left off with your answers to Mr Prue's question, the recent budget had some very tough choices in it. What I've noted is that the Conservative opposition seems to be rewriting history a little bit. I heard a recent presentation by a Conservative MPP, who outlined the fact that it was all about SARS and the blackout, that SARS and the blackout had caused a shortfall in provincial revenues—a small shortfall which appeared in the fall—and that what was actually put forward was a bit of belt-tightening on the part of the government. We could have gotten over that shortfall and then moved forward.

My question to you is around your thoughts on this characterization. As I said, it seems to be rewriting history, because I don't remember any of the Conservatives mentioning any of this in the election. But about this rewriting of history, about this idea that we could have engaged in a bit of a belt-tightening and had a balanced budget—I guess the final part of the question is, you obviously looked at everything, in terms of how to proceed, and I wonder what would it have taken, what would you have had to do, in terms of cuts and other measures, to bring forward a balanced budget this year and not have gone for health premiums?

**Hon Mr Sorbara:** I want to thank my colleague for the question. I think it's an important one. The SARS crisis and the blackout did have an impact on the fiscal year in which they both occurred. There's no doubt about that. It slowed economic activity and, in the case of SARS, gave rise to increased expenditures by this government under the previous administration. There's absolutely no doubt about that.

But the financial circumstances that we inherited when we were elected went well beyond those two significant events in that year. We inherited a structural deficit. What does that mean, in simple terms? It means that if you don't make some major adjustment, either to your revenues or to your expenditures, you're going to be short every year for the foreseeable future. Another way of expressing it is you simply can't grow your way out of the deficit. That is, if the economy grows by a rate of 4% or 5% rather than the 3% forecast, that doesn't get you out of the structural deficit because your cost base grows as well. The province had a structural deficit. It needed an adjustment in revenues or expenditures.

Just let me put this on the record: I wish they were right. I wish it was just a one-year problem. I wish we could have said that we'd solved the province's financial problems without additional revenue. I repeat, can you imagine how difficult it was to have to make the decision to increase revenues in Ontario through the Ontario health premium, having committed in the campaign that we weren't going to do it? That's really, really tough

politics. We know about the angry reaction of some people around the province. It's not about what's in the budget; it's around the fact that, "You said you were going to do one thing, and you had to do the other."

So I wish that what the previous administration, what the Conservative Party, is saying now were true: that it was just a one-year problem and that with a little belt-tightening, we could have fixed it. The fact is that in order to fix it in this year—that is to say, to give the people of this province a balanced budget without any additional increases in revenues, whether an Ontario health premium or something else—would have required a most significant cut in levels of public service and public services, a level that would have been completely unacceptable to the people of this province.

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Let me give you an example. We would have had to find about \$2.5 billion in savings in this year. How do you recover \$2.5 billion? If you let 16,500 teachers go, you'll save about \$1 billion. If you close the entire community college system, you save about \$800 million, I think it is. If you close about 10 of the larger community hospitals around the province, like the one in my community—York Central Hospital's a community-based hospital; it's not a teaching hospital—you'll save about \$1 billion. It's so easy for some to suggest, "Well, just cut right across the board," but that would involve deterioration of education services—say you take \$500 million out of education; that still means laying off thousands of teachers—taking \$500 million out of health; that means cutting hospital beds. I'm not talking about reducing the rate of growth; I'm talking about real reduction in expenditures.

The notion of just that kind of drastic cut in the quality of public services was not acceptable to us as a government. Yes, we did campaign on the basis that we would not be increasing revenues, but we also made very clear promises about improving the quality of health care and transforming it so that it was more community-based. We made very specific commitments about ending the war in public education and about smaller class sizes and more efforts in numeracy and literacy. All of those were very meaningful to us, and so we made the really difficult choice of abandoning the commitment not to raise revenues so that we could begin to enhance the quality of public services and, over the course of four years, give the people of Ontario a balanced budget.

**The Chair:** Thank you, Minister. Next I have Mr O'Toole, Ms Horwath and Mr Arthurs. We'll try to keep the questions and answers short if we want to get it in this rotation.

**Mr John O'Toole (Durham):** Thank you very much, Minister. I find the presentation interesting. I have one specific question—more a point of information—which I'll get to, and I have one comment further to the \$3.9 billion.

I asked a question today in the House. At the time, the Minister of Energy wasn't present. Initially I directed it to the Premier, and it subsequently got back to the

Minister of Energy. It was the same question on the \$3.9-billion number, how it shows up on the revenue side in the 2004-05 year, really, as \$4.024 billion. It's a one-time charge in the footnote of \$3.88 billion related to this non-utility.

I feel now, from what I've heard from staff, that the answer he gave me was incorrect, although that's the theory in question period, that it's not answer period—I understand that. But he said today that that rate will further show up some time in the rate bill. There's no question that at some point in time—

**Hon Mr Sorbara:** Yes.

**Mr O'Toole:** I'm pleased to clarify that, because it's something the consumer should know. The April price increase was part of it.

There are structural reasons for off-loading that future liability. I understand that. It affords you less expenditure, really. That's all it's avoiding, is you paying this spinning reserve, or whatever it was called, into the future. That's a good point of clarification.

I understand the principle of accounting, that you said it must be stated, when the decision is made, as an in-year source of revenue, but it does sort of offset what I consider to be the real mystery of how you support your ongoing spending that you've started this year.

I just want to bring you back to one thing you said, which I strongly disagree with. Now, I'm not an economist or a tax expert, but I've been watching for a long time. There are those who believe the tax policy at the provincial level does influence the return or the revenue—

**Hon Mr Sorbara:** I'm sorry?

**Mr O'Toole:** It does influence return, revenue.

**Hon Mr Sorbara:** Sure.

**Mr O'Toole:** You were saying that it's not sustainable or there's a structural deficit and all these things. But the point here is that if I look at your own document on page 70, on the revenue side, and I just take the tax revenue from the government's own sources, not looking at transfer payments, essentially—from 2000 to 2001 only, though the 2003-04 year, 2005 year, if you want to say, because there's still some hangover effect—there's about a \$4-billion increase in revenue.

If you're suggesting that reducing taxes reduces revenue one for one, I don't think that's supported. If you look at the expenditure side, we've increased expenditures just in health care by \$11 billion. As the Minister of Finance, you're saying one thing that doesn't hold up in your own accounts here. If you look at the total revenue side, including in that the very generous government of Canada transfer payments—

**Hon Mr Sorbara:** Exactly. You hit it right on the nose.

**Mr O'Toole:** —there's almost \$6 billion or \$7 billion of new revenue showing up there in the 2004-05 year.

**Hon Mr Sorbara:** Should we just stop at that?

**Mr O'Toole:** I've got a question there, though. Really, this all amounts to a question.

**The Chair:** Mr O'Toole, you have about one minute left. How much of that would you like the Minister to respond?

**Mr O'Toole:** The question is this: If you were to get into an argument on the economics of it and the generation of revenue, what is the relationship in specific dollars? What does 1% in GDP equal in terms of revenue on the positive side, a positive growth in GDP?

**Hon Mr Sorbara:** About \$600 million.

**Mr O'Toole:** OK, that's the number they use. What's on the negative side? If you lose a point of the GDP, is it still just \$600 million?

**Hon Mr Sorbara:** It's more or less \$600 million.

**Mr O'Toole:** If you look at your own document, on page 53, you'll see that there was a significant revenue problem; SARS and other economic risks, I suppose, during the 2003-04 year. You'll see that the forecast in personal income tax revenue fell off by \$1.2 billion. Doesn't that really depend on economic conditions underlying that? That is, the GDP falls and your revenue falls. You told me—what did it drop? I thought it dropped about 1.2% and that we lost \$1.2 billion.

**Hon Mr Sorbara:** In answer to the question, I want you to continue to look at page 70. I want you to note that the taxation revenue for the province of Ontario in 2000-01 was \$49.47 billion. In the interim, for 2003-04, it's actually less by about \$300 million, at \$49.16 billion. If you just go down to the next level, you'll see the revenues from the government of Canada during the same period go up by \$3.8 billion. In other words, this province's finances during those last three years of your party's administration was being supported by increases from the federal government, notwithstanding that your own management of your own revenues fell by some 0.6%, given how you adjusted the revenue base of the province.

I say it was shameful to allow your own revenues to drop during a three-year period where the economy was growing. You were being propped up by the national government. Politically, at the very same time, you were dumping all over the national government for not giving you enough money. So you cut taxes for Ontario taxpayers and then complained to the national government that you weren't getting enough transfers, when in fact the transfers from the national government were going up by a factor of \$3.8 billion.

**The Chair:** Thank you, Minister. Thank you, Mr O'Toole.

**Hon Mr Sorbara:** Let's continue this tomorrow.

**The Chair:** Absolutely.

**Hon Mr Sorbara:** I'm just getting warmed up now.

**The Chair:** Minister, thank you for your attendance today, and for all of your staff who attended with you. Where possible, we would appreciate and expect to have a written answer to the questions that were raised so we can circulate them. The delivery mechanism is through the clerk.

For members of the committee, we have two small items of business that have to be dealt with.

**Mr Prue:** On a point of order: Can we get your undertaking to supply details of all federal health transfers and restrictions on them? We would really like to see the \$740 million and what the federal government says we can spend and can't spend out of that money.

**The Chair:** Staff have made a note of your question. It's on the record.

1800

**Mr Dave Levac (Brant):** On a point of order, Mr Chair: I'd like an explanation for the decision that was made to lose the time the government side had assigned to it for questions.

**The Chair:** I specifically told the minister that it was his remaining 20 some odd minutes to use as he chose. He said, "I would be more than pleased to receive questions from all members." He did not say from his caucus; he said, "from all members." That's what the record is. I was asked what my explanation was, and that is why the decision was made. Had the minister been specific and said, "I only want to talk to my caucus for the next 20 minutes," then I would have agreed to that. I gave him full latitude to define how he wanted to proceed for his remaining time. He instructed the Chair, and I acted accordingly.

**Mr Levac:** Further to that: With the understanding that previously we had already established that rotation and that we deviated from it.

**The Chair:** Yes, that's in the standing orders. We have not begun the three-party rotation. That's what I'm anxious to do now, because I didn't do it up front. The standing orders speak to the first two hours of estimates. They have now expired. We are now into our rotation, so I invite all members to guide the Chair. Do you wish to have 10-minute, 15-minute or 20-minute rotations? Whatever you choose, I need to know how you then wish to proceed. I didn't panic on this point, because I knew we were never going to get to it today because Minister Sorbara had one full hour at his disposal. I accommodated him. Now I'm in the hands of the committee, and you will order up your business. I don't want to take 25 minutes debating that tomorrow, because as it is today, we've lost half an hour and we may never see the estimates of the Ministry of Education as a result of that. I now wish to reach an agreement from the committee. I'm in your hands. We've not had a subcommittee meeting.

The second question I wish to resolve is that we need to advise the House leaders of all three parties if we wish to conduct estimates during the intersession. I've informally been advised by the government House leader that time may be available to us for two weeks in September. If we do not meet in the intersession, the calendar, as we have it in front of us, means that we will only complete the first five estimates and stop almost before we get to education. I'm just telling the committee that I'm in your hands. I need a motion that recommends we sit in the intersession, and I need someone to throw a 5-, 10- or 15-minute rotation number on the table, and

then I will make sure that everybody fairly allocates their time.

**Hon Mr Sorbara:** Mr Chair, if I might—

**The Chair:** No, I'm sorry. You've been dismissed, Minister.

**Hon Mr Sorbara:** Dismissed?

**The Chair:** Yes.

**Mr O'Toole:** The second most powerful man in Canada.

**The Chair:** Your matter has been dealt with, Minister. I appreciate you're being helpful, but I recognize Mr O'Toole. I'm looking for two motions right away.

**Mr O'Toole:** I would put forward that we have 15-minute rotations and keep going in rotation.

**Mr Levac:** Agreed on the 15.

**The Chair:** Agreed. That's a motion moved by Mr O'Toole. All those in favour? Carried.

I'm now going to ask if there's any inclination for us to sit during the intersession. I'm led to believe it would be in September. We can formally request that of the House leaders, and then they can tell us yes or no.

**Mr Levac:** I was going to try to put a little bit of a motion into that, if you're looking for a motion, with the indulgence of the House leaders. I understand we have a government House leader's recommendation of time available. In this motion I would defer to the House leaders to come up with an agreement on an intersession meeting schedule in order for us to allow for education to be included in this eventually, because I understand that if we don't, we might miss estimates in education, and I'm sure that—

**The Chair:** The list very clearly is finance; health, second; energy, third; municipal affairs, fourth; children and youth services, fifth; and at this point, we probably would have less than 30 minutes on education. After that would be transportation.

**Mr Levac:** So my motion would be to avail ourselves of the discussion of the House leaders to come back to us with a recommendation of intercession.

**The Chair:** To be helpful, I think we should simply convey that we are willing as a committee to serve, and it's our intention. Then we'll let the House leaders negotiate the space. I've heard that we may be offered Monday through Thursday, 10 o'clock till 4 o'clock for two weeks in September. The House leaders are still debating as to when we come back, so that's another factor.

**Mr O'Toole:** If I may; it's a debate. I think there's a motion on the floor suggesting that we put something forward.

**Mr Levac:** For the intersession.

**The Chair:** I haven't heard a real motion.

**Mr O'Toole:** I would put forward that we don't. There are a couple of other committees that will be meeting, and it would be my intention not to be—I am already sitting, that's the point. I'm sitting in September.

**The Chair:** If I don't hear a motion, I'll just let this lapse. You don't want to sit for estimates?

**Mr Levac:** Quite frankly, I'm trying to make it available for us to sit if indeed the House leaders—

**The Chair:** I would keep it simple, that this committee advise the House leaders of its willingness to sit during the intercession for purposes of advancing through the list of estimates.

**Mr Levac:** So moved.

**The Chair:** Any further discussion? Hearing none, all those in favour? Opposed, if any? Carried.

The committee is adjourned.

*The committee adjourned at 1805.*



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Mr Dave Levac (Brant L)

Mr Michael Prue (Beaches-East York / Beaches-York-Est ND)

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