

## Assessing Ontario Government Employment and Wage Expense

### Key Points

- Employee wages and salaries are a major expense category for the Ontario government. This commentary reviews past and current trends in public sector employment and wages, as well as recent developments in Ontario's labour market, to assess the potential implications for the government's compensation expense going forward.<sup>1</sup>
- Based on FAO estimates, the Ontario government employed approximately 650,000 people in 2018, accounting for approximately 11 per cent of the total number of salaried workers in Ontario.<sup>2</sup>
- In 2018, the FAO estimates that the Ontario government will spend approximately \$41.4 billion on salaries and wages, accounting for about one-third of total program spending.
- Restraining the growth in employee compensation was a key element in the previous government's plan to eliminate the deficit and was achieved by limiting increases in both public sector wages and employment.
  - The growth of public sector wage rates fell dramatically from 4.1 per cent per year before the 2008-09 recession to just 1.0 per cent per year on average over the 2010 to 2016 period.
  - Similarly, the growth in Ontario government employment slowed to an average of 1.1 per cent per year from 2010 to 2016, down from 2.4 per cent annual increases prior to the recession.
- As a result, the total wage and salary expense of the Ontario government increased by an average of 2.2 per cent per year from 2010 to 2016, down sharply from increases averaging 6.7 per cent over the 2001 to 2009 period.
- However, based on recent data, the growth in the Ontario government's total wage expense has increased noticeably over the past two years, compared with the previous period of restraint. The FAO estimates that the Ontario government wage bill will increase at an average pace of over 4.4 per cent in 2017 and 2018, driven by sharp increases in both wage rates and employment growth.
- Going forward, a variety of factors will make restraining the pace of government wage growth more challenging.
  - Recent collective bargaining agreements in the Ontario public sector have provided for higher wage rates for public sector workers, averaging 1.9 per cent over the next several years.
  - In addition, Ontario's historically low unemployment rate and an increasingly competitive labour market are contributing to more unfilled public sector positions, particularly in hospitals. To fill these vacant positions, government employers may be under further pressure to boost wages to compete for workers.

<sup>1</sup> The government does not publish consistent historical statistics for public sector employment and wage expenses. Given this, the FAO developed estimates of these statistics based on data from Statistics Canada to support this analysis.

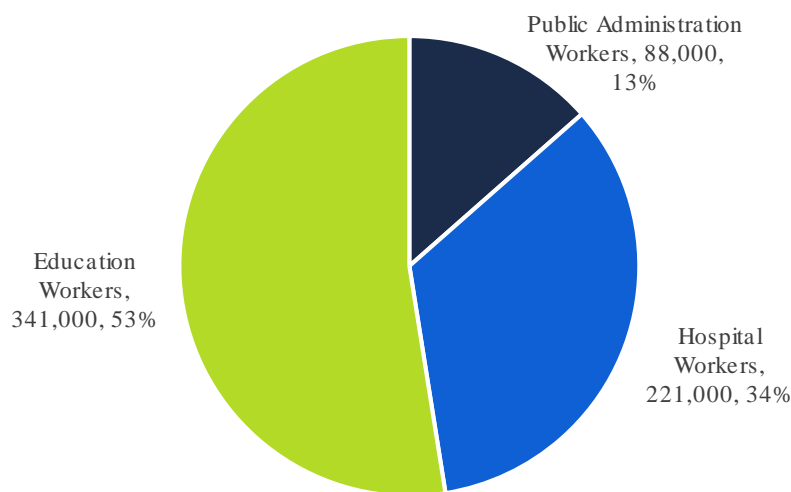
<sup>2</sup> For the purposes of this commentary, the FAO's definition of Ontario's public sector employment includes broader public sector organizations consolidated in the Public Accounts of Ontario. This includes the public administration sector, hospitals, school boards and colleges, but excludes other publicly funded entities such as universities, doctors and social assistance agencies.

## Provincial Government Is a Major Employer in Ontario

The FAO estimates that the number of public sector workers will increase to 650,000 in 2018, representing approximately 11 per cent of total employment of salaried workers in Ontario.

This includes 88,000 employees in public administration who are employed directly in Ontario government ministries,<sup>3</sup> plus 341,000 workers in the education sector and 221,000 workers in the hospital sector whose salaries are largely funded by provincial government transfer payments.

**Figure 1: Breakdown of Public Sector Employment (2018)**



Source: Statistics Canada's Survey of Employee, Payroll and Hours (SEPH), and FAO.

The estimate for the number of public sector workers depends on the definition of the public sector. Depending on the definition used, the estimated number of public sector employees can range from 88,000 to 1.3 million (see Appendix: Defining the Ontario Public Sector).

For the purposes of this commentary, the FAO's definition of Ontario's public sector workers includes broader public sector organizations consolidated in the Public Accounts.<sup>4</sup> This includes the public administration sector, hospitals, school boards and colleges, but excludes other publicly funded organizations such as universities, doctors and social assistance agencies.

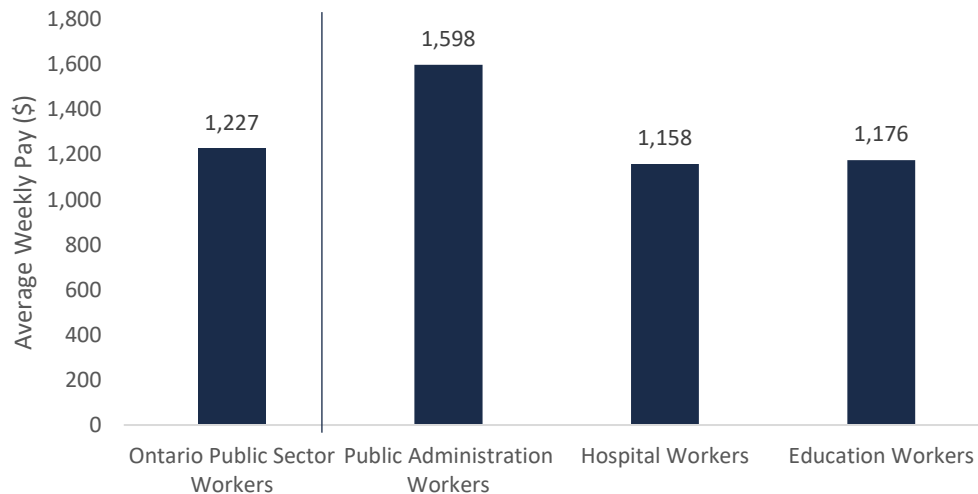
<sup>3</sup> The Ontario government reports that there were 64,000 Ontario Public Service (OPS) full-time equivalent (FTE) positions in 2016-17. The main reason for the difference between the two estimates is that the Ontario government reports employment on a "full-time equivalent" (FTE) basis, whereas the FAO estimate is based on Statistics Canada data which report the number of workers, regardless of the number of hours worked. In addition, the Statistics Canada data rely on a standardized definition of public administration, which may differ from the Ontario government's own definition of the OPS.

<sup>4</sup> The financial information of these broader public sector organizations are consolidated with those of the Province. See *Principles of Consolidation, Ontario Public Accounts 2016-17* for more details.

## Earnings of Ontario Public Sector Workers

The average earnings for Ontario public sector workers is estimated to be \$1,227 per week in 2018,<sup>5</sup> or roughly \$63,800 annually. Among public sector workers, Ontario public administration employees have the highest average weekly pay at \$1,598 per week, followed by hospital and education workers, at \$1,158 and \$1,176 per week, respectively.

**Figure 2: Average Weekly Pay of Public Sector Employees (2018)**



Source: Statistics Canada's Survey of Employee, Payroll and Hours (SEPH), and FAO.

## Ontario Government Wages Expense

Based on the Ontario Public Accounts for 2016-17, the Ontario government spent \$131.5 billion on program expenses.<sup>6</sup> Of this amount, \$40.1 billion was spent directly on the salaries of an estimated 620,000 public sector workers. Direct spending on employee compensation is the second largest spending category for the Ontario government, representing approximately 33 per cent of total program spending.

Prior to 2016-17, the Ontario Public Accounts did not include the compensation expense of hospital, school boards and colleges in the government's total wage bill. In addition, the government does not publish data on employment in the Ontario public sector at all. As a result, the FAO developed historical estimates of the number of public sector employees, as well as the government's wage and salary expense using Statistics Canada data. These estimates provide a historical profile of key measures of the government's budget over the past decade.<sup>7</sup>

<sup>5</sup> Estimated using data from Statistics Canada's Survey of Employment, Payroll and Hours (SEPH). The 2018 values are estimated by applying year-to-date January 2018 to March 2018 growth rates to the annual value for 2017.

<sup>6</sup> Consistent with the Auditor General's recommended accounting treatment for the jointly sponsored public sector pension plans.

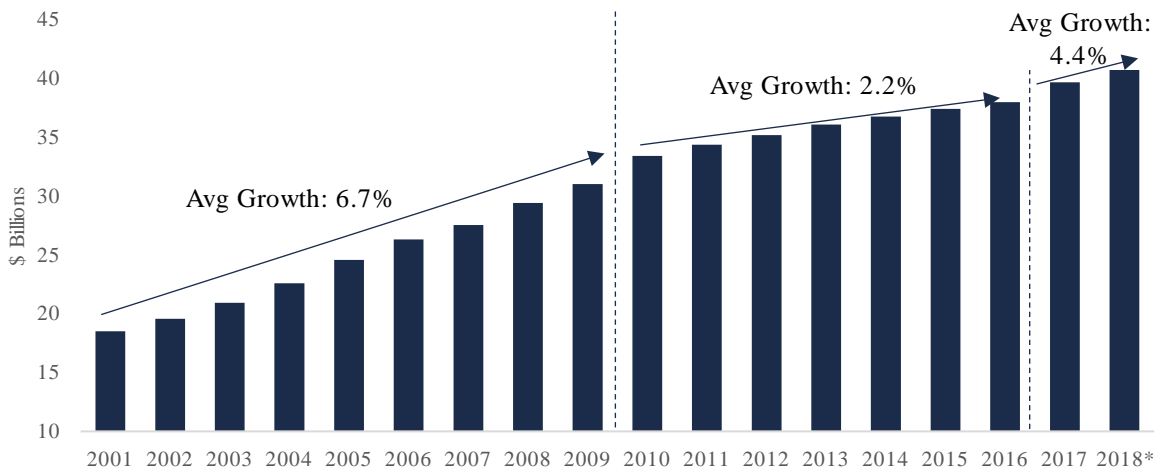
<sup>7</sup> The FAO estimates the government's total compensation expense using data from Statistics Canada's Survey of Employment, Payroll and Hours (SEPH), which is based on employers' payroll information and provides for a reliable and consistent comparison over time. This survey contains data on the number of employees and average weekly wages. The average public sector employee's weekly wage rate is converted to an annual value and multiplied by the total number of public sector employees, by sector, to arrive at an estimate of the government's total compensation expense. Based on Statistics Canada data, the Ontario government wage and salary bill is estimated to be \$38 billion in 2016-17, roughly comparable to the \$40 billion reported in the Ontario Public Accounts.

## Public Sector Compensation Restraint

From 2010 to 2016, the previous Ontario government implemented a series of measures to restrain the growth in compensation expense, as part of its plan to reduce the budget deficit (see Appendix: Government Compensation Restraint Measures).

As a result, Ontario’s compensation expense grew at an annual average rate of 2.2 per cent over this period, well below the 6.7 per cent average annual growth recorded from 2001 to 2009. More recently, growth in Ontario’s employee compensation expense has accelerated sharply, averaging 4.4 per cent in 2017 and 2018.

**Figure 3: Growth of Compensation Expense Slowed Dramatically After 2010**



Source: Statistics Canada’s Survey of Employee, Payroll and Hours (SEPH), and FAO.

Note: 2018 values are forecasted by the FAO by applying year-to-date 2018 growth rates to 2017 annual values.

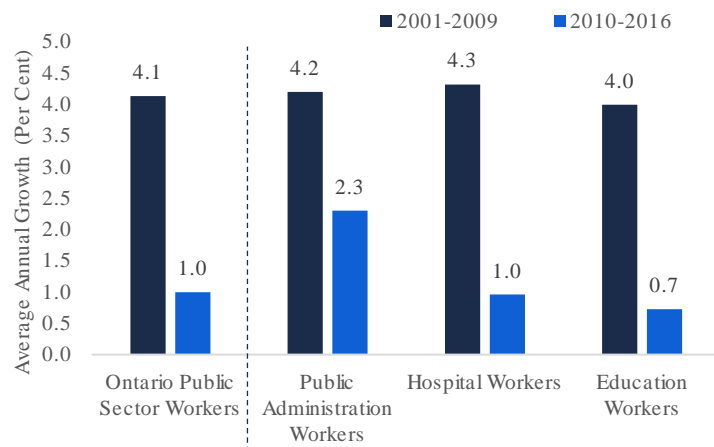
## Wage Rate Growth Fell Dramatically After 2010

The growth of public sector wage rates fell significantly, from 4.1 per cent on average before the recession to 1.0 per cent over the 2010 to 2016 period, below the average rate of price inflation.

Among public sector workers, those in the education sector experienced the biggest drop in earnings growth, falling from an average of 4.0 per cent per year prior to the recession to just 0.7 per cent per year from 2010 to 2016.

In contrast, private sector wages increased by an average of 1.9 per cent per year from 2010 to 2016.

**Figure 4: Growth of Public Sector Average Weekly Earnings**



Source: Statistics Canada’s Survey of Employee, Payroll and Hours (SEPH), and FAO.

## Public Sector Employment Growth Eased After the Recession

Slower growth in public sector employment also contributed to the slower growth in Ontario's employee compensation expenses.

Public sector employment grew by 1.1 per cent per year from 2010 to 2016, less than half the 2.4 per cent rate prior to the recession. In contrast, private sector employment grew by 1.8 per cent per year over this period.

Within the public sector, public administration employment (essentially the OPS) experienced the most significant restraint. Employment in this sector fell by an average of 0.4 per cent per year over the 2010 to 2016 period, reflecting the previous government's efforts to reduce the size of the Ontario Public Service.

By comparison, hospital and education employment continued to grow, albeit at a slower rate than prior to the recession. From 2010 to 2016, hospital employment increased by 1.2 per cent annually, down from 2.4 per cent annual growth before the recession. Similarly, employment in the education sector grew by 1.5 per cent annually from 2010 to 2016, down from the pre-recession growth rate of 2.5 per cent per year.

Despite slower growth over the 2010 to 2016 period, public sector employment growth has generally kept pace with population growth, at 1.0 per cent per year over this period.

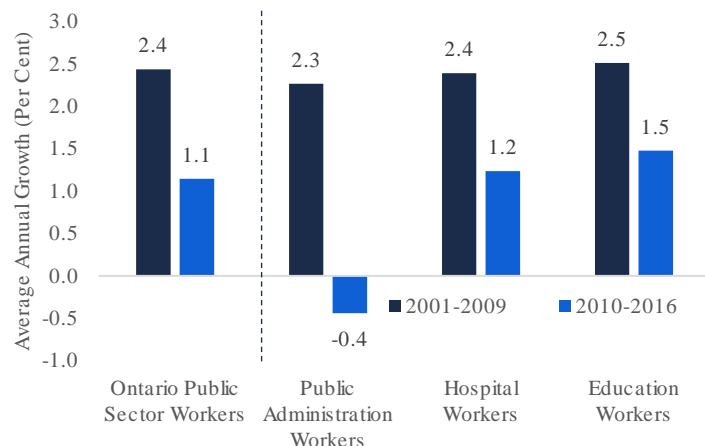
## Compensation Expense Accelerated in 2017 and 2018

The growth in the government's compensation expense has accelerated notably over the past two years, with average increases of 4.4 per cent per year in 2017 and 2018.

This acceleration was driven by a doubling in the growth of public sector wage rates, which are estimated to have increased by 2.1 per cent per year, on average in 2017 and 2018.

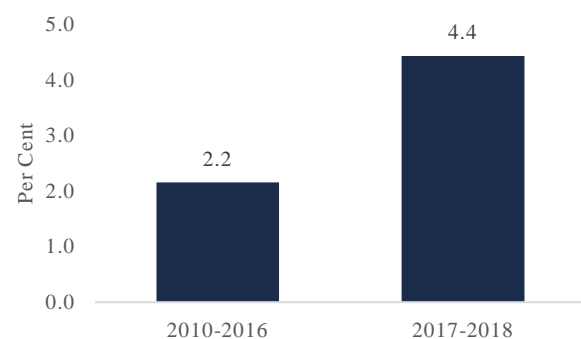
Government employment growth also accelerated noticeably from an average of 1.1 per cent over the 2010 to 2016 period to 2.3 per cent in 2017 and 2018. This is equivalent to over 29,000 new public sector jobs created over the last two years.

**Figure 5: Public Sector Employment Growth**



Source: Statistics Canada's Survey of Employee, Payroll and Hours (SEPH), and FAO.

**Figure 6: Outlook for Compensation Expense for 2017 and 2018**



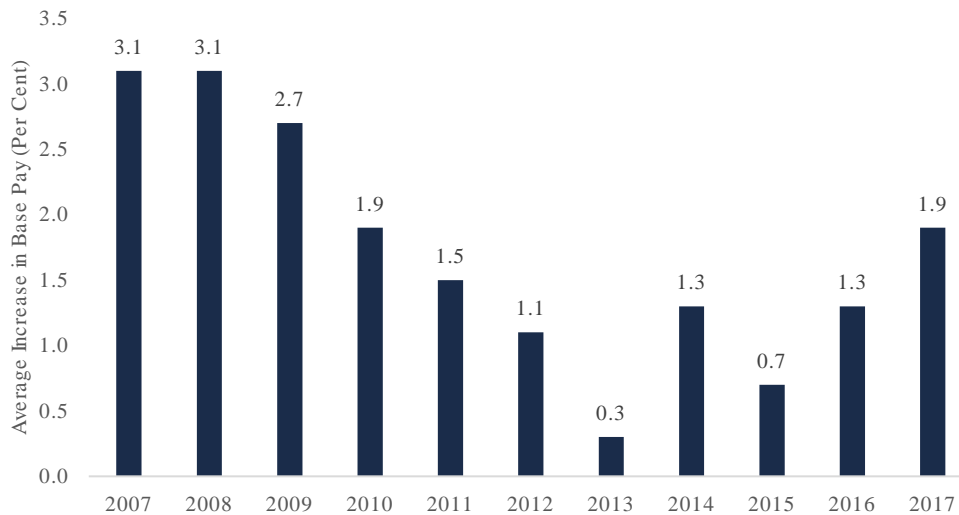
Source: Statistics Canada's Survey of Employee, Payroll and Hours (SEPH), and FAO.

Note: 2018 values are estimated.

## Outlook for Public Sector Wage Rates

Recent collective bargaining agreements will also result in an acceleration in public sector wage growth over the coming years. Collective agreements reached in 2017 provided for wage increases of 1.9 per cent per year on average over the next two to four years.<sup>8</sup> This is the highest rate of increase since 2010.

**Figure 7: Wage Increases Included in Ontario Public Sector Collective Bargaining Agreements**



Source: Ministry of Labour, Annual Collective Bargaining Review 2017.

These higher public sector wage settlements will bring government wage agreements closer into alignment with private sector collective agreements, where recent settlements have provided for 2.1 per cent average increases.

In 2018, the collective agreements for over 146,000 provincial public sector employees will be expiring.<sup>9</sup> The relatively strong recent performance of Ontario’s labour market could increase pressure on the government for higher wage increases going forward.<sup>10</sup>

Reflecting Ontario’s increasingly competitive labour market, job vacancy rates (the ratio of job postings to total employment) have also been rising. In the public sector, the job vacancy rate increased from 1.1 per cent in 2015 to 1.5 per cent in 2017. However, within the public sector, the vacancy rate for hospital jobs has increased more dramatically, rising from 1.9 per cent in 2015 to 2.8 per cent in 2017, suggesting that hospitals may be experiencing increasing difficulty hiring new workers.

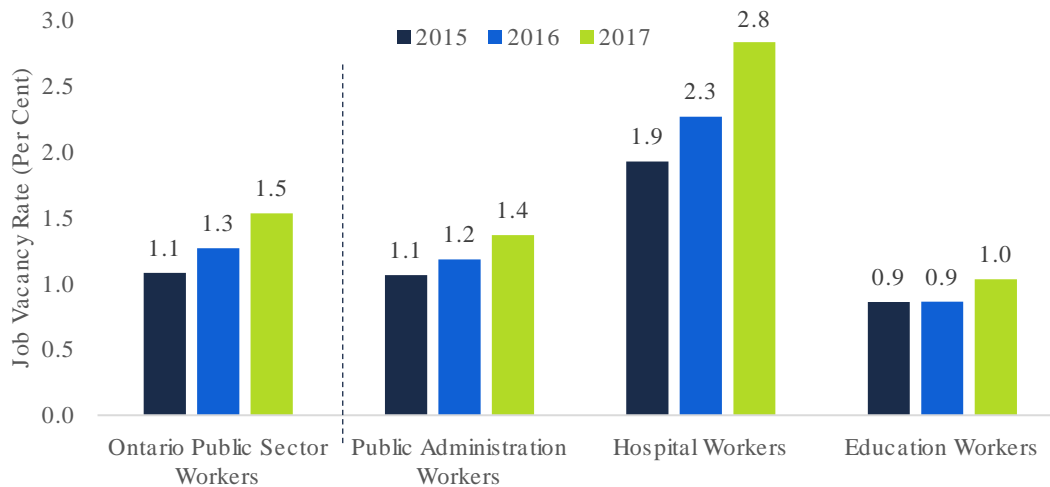
<sup>8</sup> In 2017, nearly 99 per cent of public sector collective agreements were negotiated for a term of between two and four years.

<sup>9</sup> Ministry of Labour, Annual Collective Bargaining Review 2017.

<sup>10</sup> The economy created 128,400 net new jobs in 2017, the largest annual job gain since 2003, while the unemployment rate dropped to 6 per cent, the lowest annual rate since 2000.

Given Ontario's tight labour markets, public sector employers will likely need to continue offering higher wages to compete for available workers.

**Figure 8: Public Sector Job Vacancy Rates on the Rise**



Source: Statistics Canada's Job Vacancy and Wage Survey.

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The background data and calculations used in this report are available upon request.

## About the FAO

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## Appendices

### Defining the Ontario Public Sector

Estimating Ontario government employment or employee compensation expense depends on the scope of the definition of the provincial public sector. The scope of the Ontario public sector can range from a narrow definition, which only includes employees in the Ontario Public Service (i.e. the public administration sector), to the broadest definition, which also includes employees in hospitals, school boards, colleges and other provincially funded entities, including universities, doctors, various health care institutions and social service agencies.<sup>11</sup>

For purposes of this commentary, the FAO has adopted a definition of the Ontario public sector roughly consistent with the list of public sector organizations consolidated in the Public Accounts of Ontario. This definition — which includes employment in the provincial public administration, hospitals, school boards and colleges — largely reflects public sector employment over which the government has more direct control.

As a result, employment in other publicly funded entities such as universities, doctors and social assistance agencies are excluded from this analysis.

**Figure 9: Statistics on Government Employees (2018)**

Scope	Sector	Number of Employees	Average Weekly Wage (\$)	Total Compensation Expense (\$ Millions)	Share of Program Spending
Narrow	<ul style="list-style-type: none"> <li>Public administration</li> </ul>	87,657	1,598	7,005	4.6
Consolidated Organizations (Public Accounts of Ontario)	<ul style="list-style-type: none"> <li>Public administration</li> <li>Hospitals</li> <li>School boards and colleges</li> </ul>	648,951	1,227	41,409	27.4
Broader ( <i>Broader Public Sector Act</i> )	<ul style="list-style-type: none"> <li>Public administration</li> <li>Hospitals, ambulatory care, residential facilities, offices of physicians and other health facilities</li> <li>School boards, colleges, universities and other educational facilities</li> <li>Social assistance</li> </ul>	1,306,741	1,055	68,957	45.7

Source: Statistics Canada's Survey of Employee, Payroll and Hours (SEPH), Government of Ontario, and FAO.

<sup>11</sup> This definition would be consistent with the *Broader Public Sector Act*.



## Government Compensation Restraint Measures

Beginning in 2009, the previous Ontario government implemented a number of initiatives to limit wage increases and reduce employment in the public sector. These measures included reducing the size of the Ontario Public Service (OPS), freezing OPS wages and directing bargaining agents to seek net zero collective agreements.

In addition, the government limited the growth rates of transfer payments to public entities, such as hospitals, forcing these entities to limit their compensation expenses. For more details, see *Ontario Health Sector — An Updated Assessment of Ontario Health Spending*.

**Figure 10: Government Measures to Restrict Compensation Expense Growth**

Document	Restraint Measures
2009 Budget	Reduced size of the Ontario Public Service (OPS) by 3,400 employees over three years.
2010 Budget	Froze compensation increases for all employees for two years.
2011 Budget	Reduced size of the OPS by an additional 1,500 positions over two years. Executive salaries frozen until budget is balanced.
2012 Budget	Extended freeze on executive compensation for additional two years, directed public sector employers and bargaining agents to seek agreements that "allow the government to live within its fiscal plan."
2014 & 2015 Budgets	Indicated that any wage increases must be offset by other measures to create a net zero collective agreement.

Source: Ontario Budgets.