

MOWAT RESEARCH #180 | JANUARY 2019

# Deconstructing the Gap

Quantifying the impact of  
unprincipled allocations of  
federal transfers to Ontario

BY ERICH HARTMANN

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## Acknowledgements

The author would like to thank Elaine Stam for her design work on this report as well as Reuven Shlozman, Sunil Johal, Andrew Parkin and a number of anonymous reviewers for their helpful contributions. All content and any remaining errors are the sole responsibility of the author.

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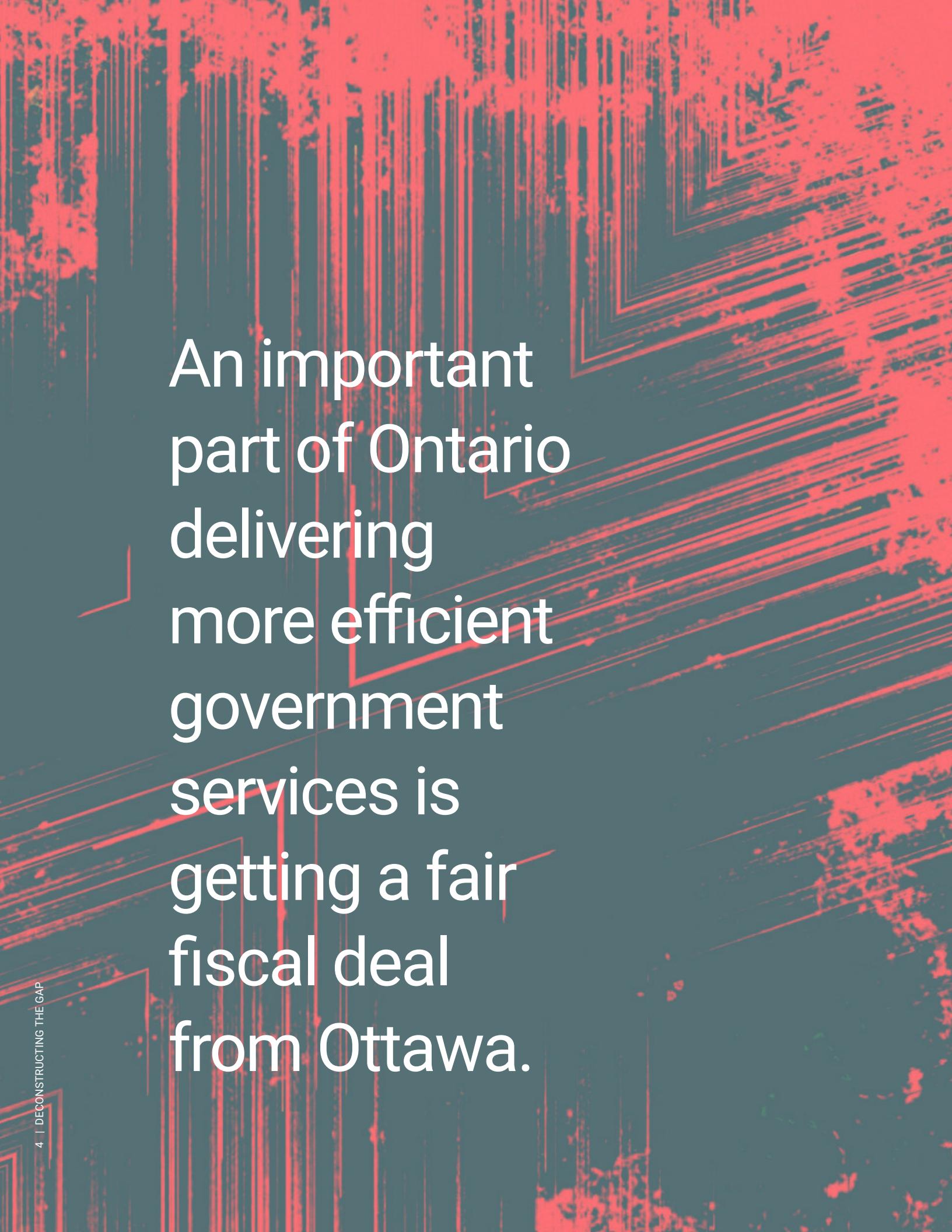
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©2019 ISBN 978-1-77259-081-4

# Contents

Executive Summary	1
<b>1</b> Introduction	3
<b>2</b> A Brief Recap: Equalization, Employment Insurance & Labour Market Transfers	9
<b>3</b> Drilling Down: Unprincipled Allocations of Other Transfers	11
Establishing the Universe of Analysis	11
Minor Transfers to Provinces and Territories	13
Infrastructure Transfers	15
Transfers to Support Innovation, Science and Economic Development	16
Transfers to Indigenous Governments and Organizations	18
Other Transfers to Post-Secondary Institutions, Municipalities and Other Organizations	20
<b>4</b> Conclusion	23
<b>5</b> Appendix: Methodological Notes	24



An important part of Ontario delivering more efficient government services is getting a fair fiscal deal from Ottawa.

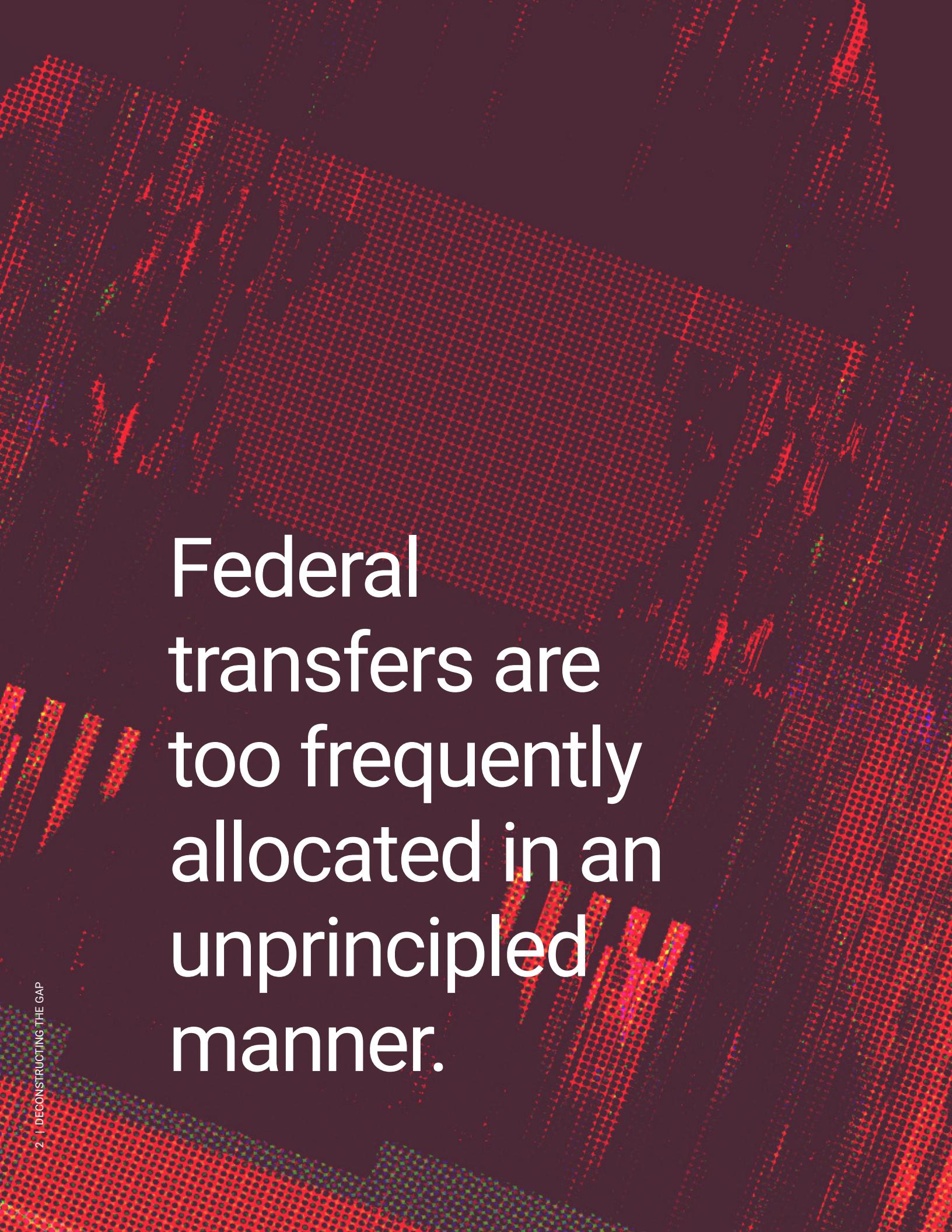
# EXECUTIVE SUMMARY

An important part of Ontario delivering more efficient government services is getting a fair fiscal deal from Ottawa. To that end, both the September 2018 Line-by-line Review of Ontario Government Expenditures and Ontario's 2018 Fall Economic Statement called for a thorough review of federal transfers with an aim to recovering a fair and adequate share of federal funding for Ontarians. This analysis is meant to inform where the Province should focus its efforts towards recovering the accurate level of federal funding owed to Ontario.

According to the Mowat Centre's most recent assessment, the gap between what Ontarians paid towards federal revenue and what they received in federal transfers and program spending was \$12.9 billion. While some degree of redistribution away from Ontario is justifiable if done in a principled manner, a considerable proportion of this gap stems from unprincipled allocations of federal funding.

This report will quantify how deviations from principled allocations of federal transfers impact Ontario. It will do this first by outlining the fiscal impacts of more familiar unprincipled allocations of federal transfers, including Equalization, Employment Insurance and Labour Market Development Agreements. Second, this will report drill down into the allocations of the hundreds of smaller transfers to provinces, municipalities, Indigenous governments, businesses, public entities and private associations.

Taken together, the gap between a principled allocation of these federal transfers and what Ontario actually received was \$3.7 billion in 2017-18.



Federal transfers are too frequently allocated in an unprincipled manner.

# 1

## INTRODUCTION

The Province of Ontario is currently facing a significant budgetary deficit. Part of Ontario's path to budgetary balance will entail getting a fair deal from the federal government. Ontario's fiscal relationship with Ottawa has consistently posed many challenges.

In some instances, federal transfers that are meant to support provincial spending on vital services, particularly in the area of health care, are inadequate. The unbalanced health care funding partnership represents an annual shortfall in the order of \$10 billion nationally on the part of the federal government.<sup>1</sup> Additionally, annual growth rates for the Canada Health Transfer (CHT) are completely detached from the actual costs of delivering health care. This will result in a continuing erosion of federal support for health care going forward.

### Key questions about federal transfers

#### Adequacy:

Is the federal government transferring enough to meet its obligations?

#### Conditionality:

Is the federal government imposing overly rigid conditions or unduly leveraging funding from provinces?

#### Unprincipled Allocations:

Is federal funding allocated in a fair and principled manner?

In other areas, such as infrastructure, the federal government imposes overly rigid conditions on provinces. The effect of these conditions in practice is to discount provinces' long-term planning for infrastructure renewal and compel provinces to present new spending plans in order to receive federal support. This means that provinces are required to either undo their fiscal planning (e.g. by taking on more debt to finance new spending) or to risk leaving federal infrastructure investment on the table.

Finally, federal transfers are too frequently allocated in an unprincipled manner. This can result in Ontario and its residents receiving less federal funding per-capita than residents of other provinces, and less than what is fair. This in turn means that the Province must either step in to fill in gaps or leave certain priorities unfunded.

This last issue of unprincipled allocations of federal transfers will be reviewed in detail in this report.

<sup>1</sup> Due to a decades-long legacy of freezes and cuts, the federal government's support for health care is significantly below a true funding partnership, as agreed to First Ministers in 1977. For more detail, see: Hartmann, Erich and Alexa Greig. (2016). "Partnership Renewed: Transforming Canada's Health Funding Arrangements." Mowat Centre.

## Calls for a Review of Federal Transfers

In September 2018, a Line-by-line Review of Ontario Government Expenditures concluded that “a thorough review of federal transfers should be conducted, with an aim towards recovering the accurate level of federal funding owed to Ontario.”<sup>2</sup>

Ontario’s 2018 Fall Economic Statement subsequently concluded that “a review of overall federal transfers is needed to ensure that transfers are not adding a fiscal and administrative burden to the Province, and that Ontario businesses, individuals and families receive a fair and adequate share of the funding.”<sup>3</sup>

2. Ernst & Young. (2018). “Managing Transformation: A Modernization Action Plan for Ontario.”

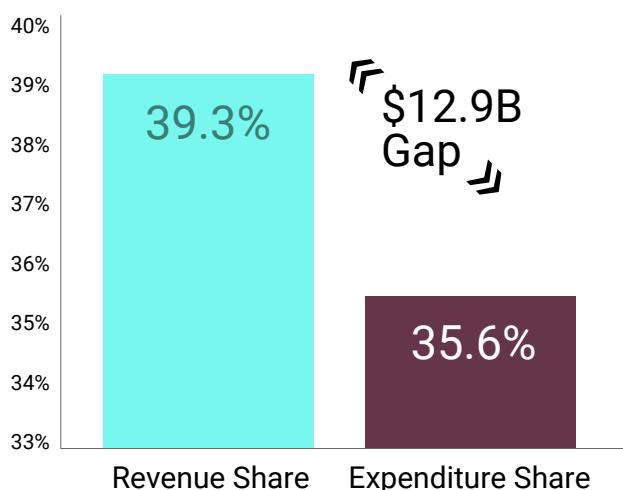
3. Ontario Ministry of Finance. (2018). “Ontario Economic Outlook and Fiscal Review.”

The Mowat Centre has published extensively on Ontarians’ net contribution to the federation. The latest report on this matter – *A Fair Fiscal Deal: Towards a more principled allocation of federal transfers* – found that in 2016, Ontarians’ contributed \$12.9 billion more to federal revenues than they received in return in the form of federal transfers and spending (see Figure 1).

Redistribution away from prosperous parts of the country, such as Ontario, to other less prosperous provinces is not undesirable *per se*. Ontarians have long supported the sharing of their prosperity across Canada. But this does not mean that funds should be reallocated from Ontario without a view to fairness. Reallocation must be justified by principles, and the mechanism for redistribution should be fit-for-purpose (see Text Box: Guiding Principles). Allocation approaches that define need on a basis other than population should use measures that are transparent and well-established. Deviations from well-established principles should be rare exceptions, explained transparently and be subject to open debate.

### FIGURE 1

Ontarians’ net contribution to the federation, 2016 (\$ billions)



Source: Mowat Centre calculation

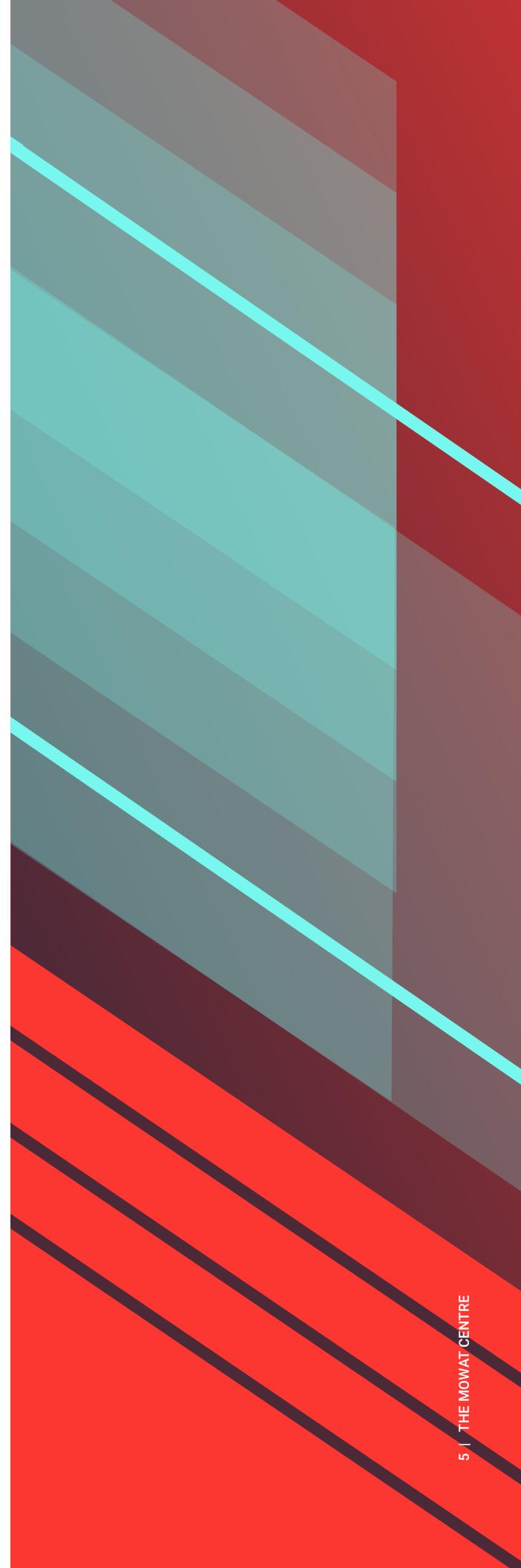
## **Guiding principles to determine the appropriate approach for allocating federal transfer payments:**

- » Clear and transparent
- » Fair to Canadians regardless of where they live
- » Consistent with the policy objectives of the transfer
- » Predictable, with the flexibility to adapt to changing circumstances

Depending on circumstances, allocations consistent with these principles can take a variety of forms, including:

- » Per-capita - allocates transfers according to share of population
- » Per client - distributes transfers based on share of the population that would be targeted for assistance by the program
- » Need-based - accounts for the demand for, and different cost of, providing comparable services
- » Merit-based – funding awarded to projects that meet objective and transparent criteria

A *Fair Fiscal Deal* sought to assess whether federal spending is allocated fairly based on simple principles. It established that, while some transfers in Canada operate in a principled manner, others do not (see Figure 2). These unprincipled allocations represent a significant proportion of Ontarians' net contribution to the federation.



## FIGURE 2

### Summary of Assessment of Allocation of Federal Transfers

Transfer to	Program	Principled Approach	Assessment of Allocation	Is current allocation principled?
Provincial and territorial governments	Equalization	Needs-based	The allocation of Equalization would be made fairer by incorporating expenditure need into the program's formula. Provinces face significant differences in services delivery costs that should be recognized by the program.	X
	Canada Health Transfer and Canada Social Transfer	Per-capita	Both the CHT and CST are provided on a per-capita basis, with each province receiving transfers equal to its share of the nation's population. This means that governments receive necessary funds to provide public services to their residents.	✓
	Other transfers	Variable	Ontario receives considerably less than its per-capita share of transfers that fall into the "other" category.	X
Individuals and households	Employment Insurance	Per-client	There is an unjustifiable gap between its share of payments for EI regular benefit recipients and the province's share of the unemployed. This means that the program is largely not meeting the needs of the intended client.	X
	Old Age Security	Needs-based	OAS and the GIS supplement are means-tested and geared to income, meaning that recipients of funding are those who need it most, therefore meeting the intended goal of the program.	✓

Source: Mowat Centre. (2018). A Fair Fiscal Deal.

This report will go beyond this assessment and will quantify the degree to which many of these unprincipled allocations impact Ontarians. The aim of this exercise is to inform the Province's proposed review of federal transfers and its efforts in recovering the accurate level of federal funding owed to Ontario.

The report starts with a very brief recap of *A Fair Fiscal Deal's* arguments that outline how the allocations of Equalization, Employment Insurance (EI) and Labour Market Development Agreements (LMDAs) deviate from a principles-basis. It will then quantify how those deviations from principle impact Ontario.

The main purpose of this report, however, is to drill down and unpack how the hundreds of ‘other transfers’ – not only to the Province, but also its municipalities, Indigenous governments, businesses, public institutions and private associations – are allocated. Due lack of previous in-depth study, how the allocation of these transfers impact Ontario is not well-understood. This report will attempt to bridge that gap by quantifying the degree to which the deviation from principled allocations in this category of transfers, if any, impact Ontario.

The main finding of this report is that, in addition to the well-understood deviations from principled allocations, unprincipled allocations permeate through nearly the entire universe of ‘other transfers’ as well. The size of this impact is material. In 2017-18, the gap between a principled allocation of these ‘other transfers’ and what Ontario actually received was nearly \$1 billion. When added to the unprincipled allocations of Equalization, EI and LMDAs, the impact on Ontario was \$3.7 billion.

This matters because when the federal government does not consistently use principles-based approaches, Canadians in different parts of the country have different access to essential public services funded with their federal tax dollars. This in turn means that Ontarians must either fill in the gaps, further stretching the Province’s fiscal capacity, or leave priorities unfunded.

Unprincipled  
allocations of  
Equalization, EI  
and the LMDAs  
alone resulted in  
Ontarians  
receiving \$2.7  
billion less than  
what would  
be considered fair.

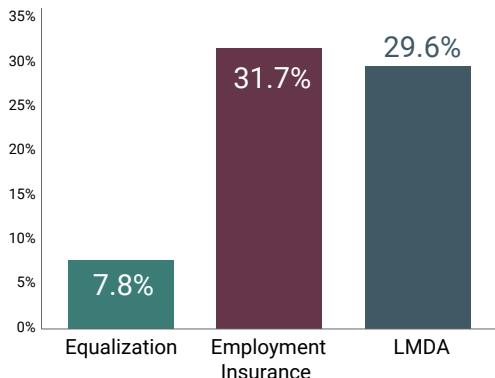
## 2 A BRIEF RECAP: EQUALIZATION, EMPLOYMENT INSURANCE & LABOUR MARKET TRANSFERS

The Mowat Centre's July 2018 report, *A Fair Fiscal Deal*, outlined three primary areas of unprincipled allocation of federal transfers: Equalization, Employment Insurance (EI) and "other transfers." From the last category, the Labour Market Development Agreement (LMDA) was singled out as a prime example.

In 2017-18, Ontario received 7.8 per cent, 31.7 per cent and 29.6 per cent of Equalization, EI and LMDA funding respectively (see Figure 3). In all three of those programs, Ontario received significantly less than either its per-capita share or its per cent contribution to federal revenues, resulting in Ontarians making significant net contributions to those programs (see Figure 4).

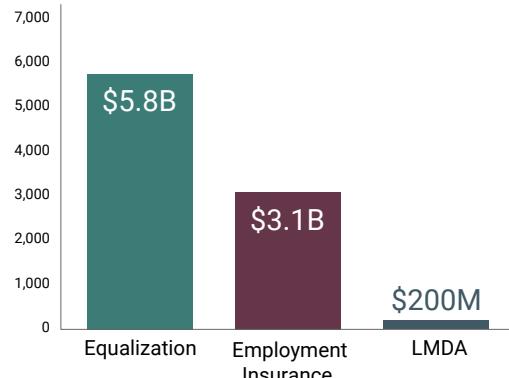
**FIGURE 3**

**Ontario's Share of Equalization, EI and LMDA Funding, 2017-18 (%)**



**FIGURE 4**

**Ontarians' Net Contribution to Equalization, EI and LMDA Funding, 2017-18 (\$ millions)**

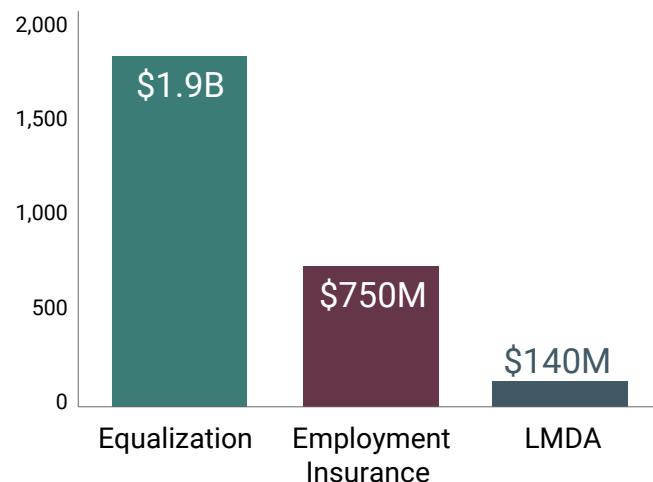


However, a net contribution is not the same as what would result from a principled allocation of those funds. With respect to Equalization for example, the Mowat Centre has argued that incorporating a measure of expenditure need – recognizing primarily the higher cost of delivering services in Ontario – would be a more principled approach to allocating those funds. In addition to being more principled, including expenditure need into Equalization would reduce Ontarians' net contribution in two ways. First, it would increase Ontario's entitlement under the program. Second, it would lead to a smaller overall program, reducing all Canadians' – including Ontarians' – contribution to Equalization. It is estimated that the net result of these two effects would reduce Ontarians' net contribution to the program by \$1.9 billion in 2017-18 (see Figure 5).

With respect to both EI and LMDAs, both of those programs would be far more principled if their allocations more closely matched Ontario's 36.1 per cent share of Canada's unemployed population in 2017. This would have resulted in Ontarians receiving an additional \$750 million and \$140 million from EI and LMDAs respectively (see Figure 5).

## FIGURE 5

**Gap from Principled Allocations, 2017-18  
(\$ millions)**



Taken together, unprincipled allocations of Equalization, EI and the LMDAs alone resulted in Ontarians receiving \$2.7 billion less than what would be considered fair.

# 3 DRILLING DOWN: UNPRINCIPLED ALLOCATIONS OF OTHER TRANSFERS

The Mowat Centre's report *A Fair Fiscal Deal*, however, did not examine in any significant level of detail the allocations of the hundreds of smaller transfers to provinces, municipalities, universities, Indigenous governments and other organizations. This report fills that gap (so to speak). By drilling down into the detailed transfer payment information presented in Volume III, Section 6 of the Public Accounts of Canada 2017-18, it is evident that unprincipled allocations permeate throughout this entire universe of federal transfers, resulting in Ontario getting less than what would be expected from a principled approach.

## Establishing the Universe of Analysis

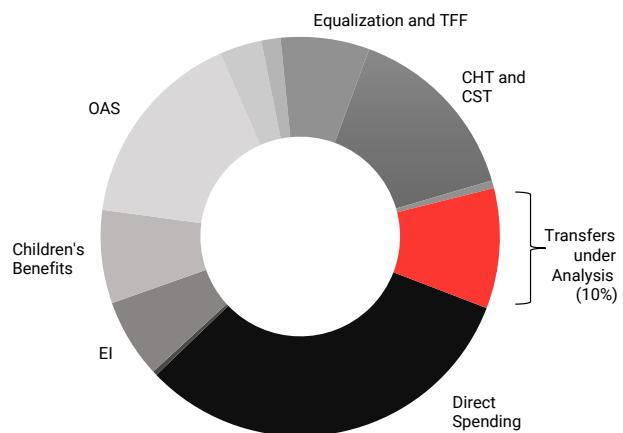
Before presenting the results of this analysis, it will be useful to establish precisely the universe of transfers that is being analyzed. First, of the federal government's over \$300 billion of program spending in 2017-18, one-third (\$99 billion) was federal direct spending, which will not be considered in this analysis. Next, the transfer payments that have already been considered above are excluded from this stage of analysis, that is: OAS, CHT and CST, Equalization and Territorial Formula Financing, EI and LMDA. Additionally, other transfers to individuals, such as children's benefits, tax credits, payments associated with Registered Education Savings Plans, student financial assistance, Registered Disability Savings Plans and veterans' benefits will not be considered. An assessment of the fairness of transfers to individuals from a regional perspective will be deferred to a future study.

Also excluded from the present analysis are transfers to international organizations, special arrangements in certain provinces – such as Quebec's asymmetrical arrangement under the Canada Student Financial Assistance regime and the offshore oil arrangements in Newfoundland and Labrador and Nova Scotia – and unpredictable, one-off payments such as Disaster Financial Assistance payments (see Appendix for greater detail on what has been excluded from this analysis).

Having excluded the above from the present analysis, we are left with just over \$30 billion of transfer payments representing about 10 per cent of federal program spending (see Figure 6).

**FIGURE 6**

### Transfer Payments Subject to the Current Level of Analysis, 2017-18



Note: see Appendix Note 1 for more detail on what is excluded from this analysis

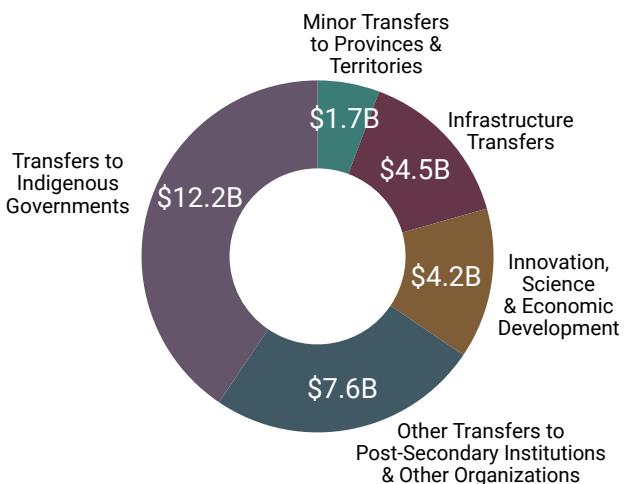
The remaining transfer payments fall into five broad categories (see Figure 7):

- » Minor transfers to provinces and territories
- » Infrastructure transfers
- » Transfers to support innovation, science and economic development
- » Transfers to Indigenous governments and organizations
- » Other transfers to post-secondary institutions, municipalities and other public and private organizations.

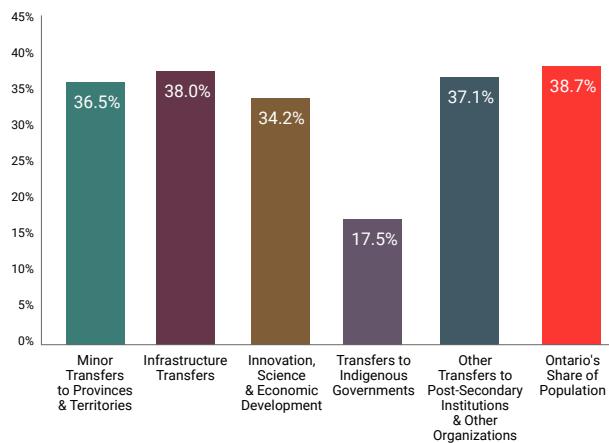
An examination of the allocations of the transfers in each of these categories reveals that Ontario, its businesses, public institutions and private associations consistently receive a lower share of federal transfers than Ontario's share of the population (see Figure 8). In addition, the 17.5 per cent of transfers that Indigenous governments and organizations in Ontario received is significantly lower than the 22.4 per cent of Canada's Indigenous population that lives in Ontario.

**FIGURE 7**

### Categories of Transfers Subject to the Current Level of Analysis, 2017-18

**FIGURE 8**

### Ontario's Share of Categories of Transfers Subject to the Current Level of Analysis, 2017-18 (%)



Note: see Appendix Note 2 for more detail on adjustments made to Public Accounts data to arrive at the above shares

The analysis that follows will go through each category in greater detail to shed light on where the issues are or aren't with respect to principled allocations. This analysis is meant to inform where the Province should focus its efforts towards recovering the accurate level of federal funding owed to Ontario.

# Minor Transfers to Provinces and Territories

As noted in Figure 7, the minor federal transfers to provinces and territories considered for the purposes of this analysis constituted \$1.7 billion in 2017-18.<sup>4</sup> These can be broken out into four main categories:

- » Workforce Development Agreements (WDA): \$800 million
- » support for early learning and child care (ELCC): \$400 million
- » transfers in the areas of justice and public safety: \$400 million
- » everything else: \$100 million.

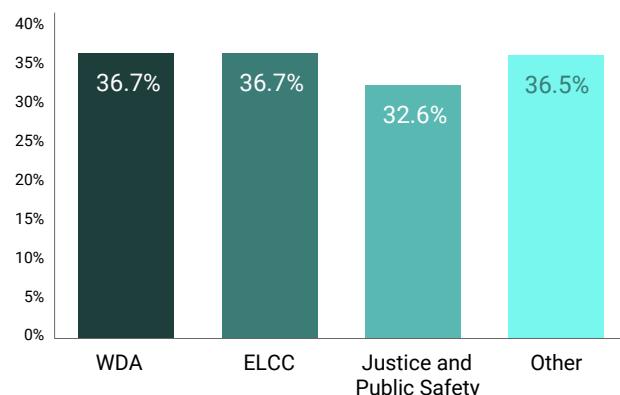
Ontario received its less than its per-capita share in each of these categories (see Figure 9). The impact of unprincipled allocations of the above transfers resulted in an overall gap of \$38 million for Ontario in 2017-18 (see Figure 10).

The WDAs support provincial skills training programs for non-EI eligible clients and include the former Multilateral Framework for Labour Market Agreements for Persons with Disabilities, Canada Job Fund, Labour Market Agreements. They represent the largest single gap from a principled allocation in this category at \$16 million in 2017-18 (see Figure 10). Ontario receives the lowest amount per-capita amount from the WDAs of any jurisdiction in Canada (see Figure 11). The federal government does not provide any principles-based justification for why Ontario should receive less funding for skills training than other provinces and territories.

<sup>4</sup> Certain programs operated by the Department of Agriculture and Agri-Food and the Department of Canadian Heritage provide federal transfers to provincial and territorial governments, provincial crown corporations and privately-owned entities from similar pools of funding. For simplicity of analysis, all federal transfers from these two departments have been have been classified as transfers to “Other Organizations” and will be discussed separately in that section.

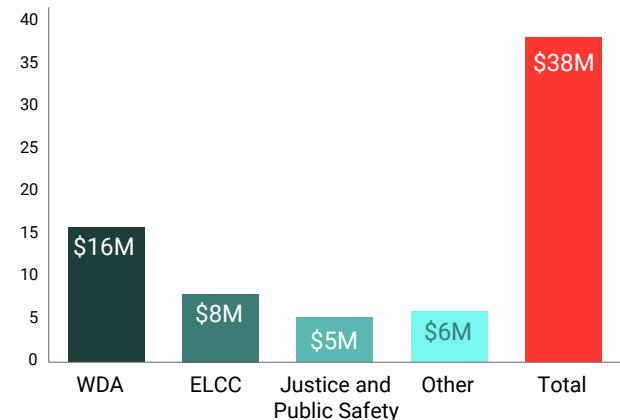
**FIGURE 9**

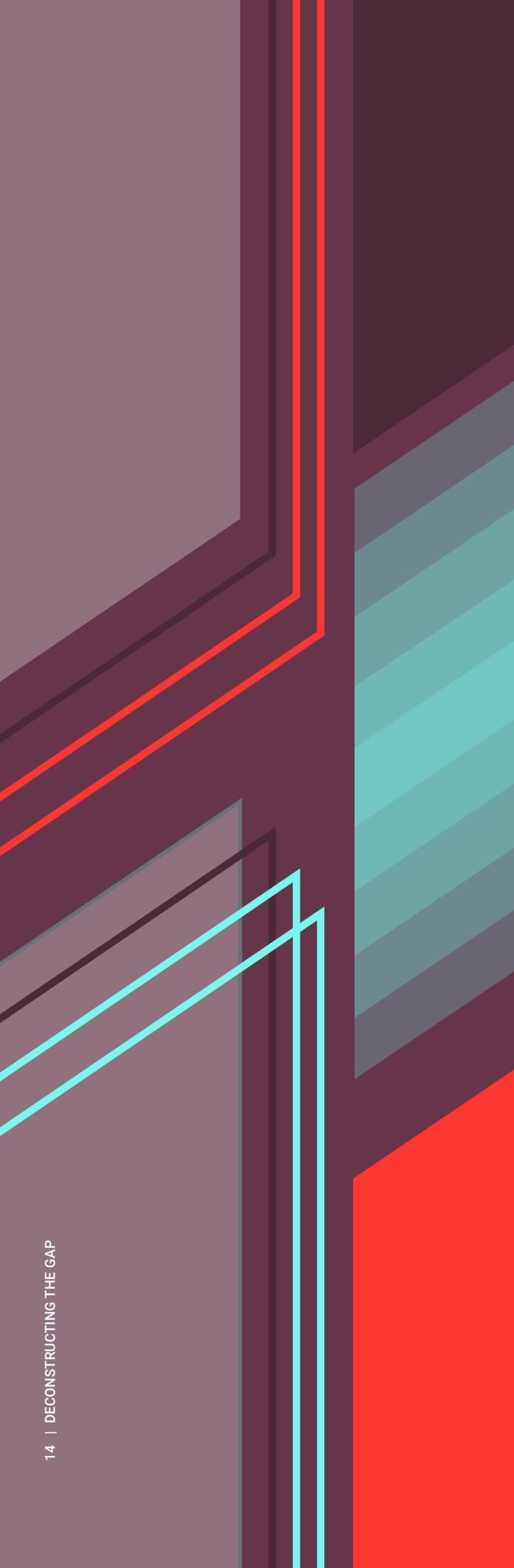
## Ontario’s Share of Minor Transfers to Provinces and Territories



**FIGURE 10**

## Ontario’s Gap from Principled Allocation for Minor Transfers to Provinces and Territories (\$ millions)



**FIGURE 11****Funding from WDAs by Province and Territory, 2017-18**

Province/ Territory	Amount (\$ million)	Per-capita (\$)	Difference from Per-capita Allocation (\$)
NL	13	25.20	3.19
PE	6	38.75	16.74
NS	23	24.45	2.44
NB	19	25.63	3.62
QC	185	22.08	0.07
ON	297	20.90	(1.12)
MB	29	22.00	(0.02)
SK	29	24.54	2.52
AB	91	21.25	(0.76)
BC	106	21.91	(0.10)
YT	4	103.54	81.53
NT	3	70.59	70.59
NU	2	59.62	59.62
Total	808	22.02	-

Ontario's \$8 million gap in ELCC funding resulted from the inclusion of a fixed base rate of \$2 million per year for each province and territory, which benefits smaller jurisdictions.

Ontario's \$5 million gap from transfers from the Departments of Justice and Public Safety results from the Province receiving less than its per-capita share of funding for youth justice services which is partially offset by an above per-capita allocation for legal aid services.

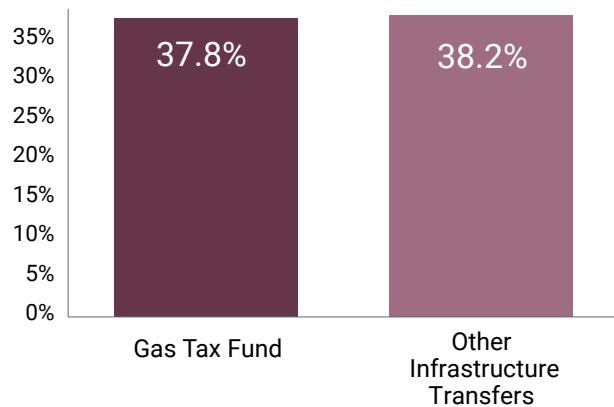
The \$6 million gap in other transfers is primarily composed of a \$5 million shortfall resulting from Ontario receiving less than its per-capita share of funding from various Official Languages programs.

## Infrastructure Transfers

The \$4.5 billion in federal transfers related to infrastructure funding in 2017-18 came closest to Ontario, its municipalities and other transfer recipients seeing a per-capita allocation of funding (see Figure 8). However, Ontario still fell short of receiving a per-capita share either the Gas Tax Fund or infrastructure transfers more generally (see Figure 12). The impact of unprincipled allocations of infrastructure transfers resulted in an overall gap of \$29 million for Ontario in 2017-18 (see Figure 13).

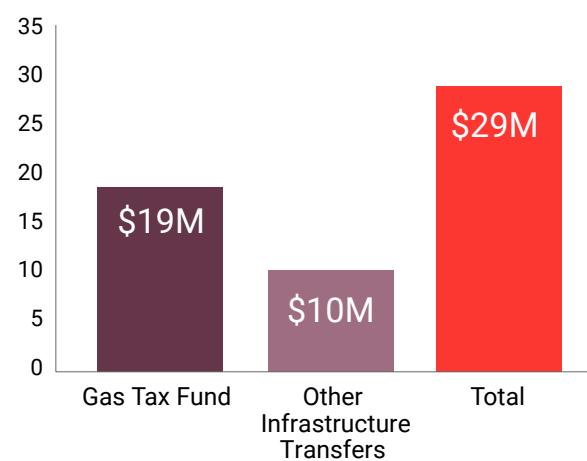
**FIGURE 12**

### Ontario Shares of Infrastructure Transfers (%)



**FIGURE 13**

### Ontario's Gap from Principled Allocation for Infrastructure Transfers (\$ million)



The City of Toronto and the Association of Municipalities of Ontario received 37.8 per cent of the Gas Tax Fund (see Figure 12). Ontario received less than its population share of the Fund because, while most of it is allocated on a per-capita basis, a base funding amount of 0.75 per cent of total annual funding is provided to Prince Edward Island and each territory. This resulted in Ontario receiving \$19 million less than a straight per-capita allocation would have yielded (see Figure 13).

With respect to the remaining \$2.4 billion of federal infrastructure transfers, Ontario transfer payment recipients – which include the Province, provincial agencies, municipalities, post-secondary education institutions and community organizations – received 38.2 per cent of available funding that year. This represents a \$10 million gap from a per-capita allocation (see Figure 13).

It should be noted that infrastructure transfers can be quite uneven year-over-year. There is some evidence that delays in infrastructure program implementation are affecting how federal funds are distributed across regions. The Parliamentary Budget Officer (PBO) has pointed out that the funding allocated through Phase I of the federal infrastructure program has been extremely uneven across provinces with significant variances on a per-capita basis. Nationally, the mean spending under the program was \$703 per person, but in Ontario was \$161.<sup>5</sup> The multi-year allocations of federal infrastructure funding by province should be vigilantly reviewed on an ongoing basis.

<sup>5</sup> Office of the Parliamentary Budget Officer. (2018). "Status Report on Phase 1 of the New Infrastructure Plan."

## Transfers to Support Innovation, Science & Economic Development

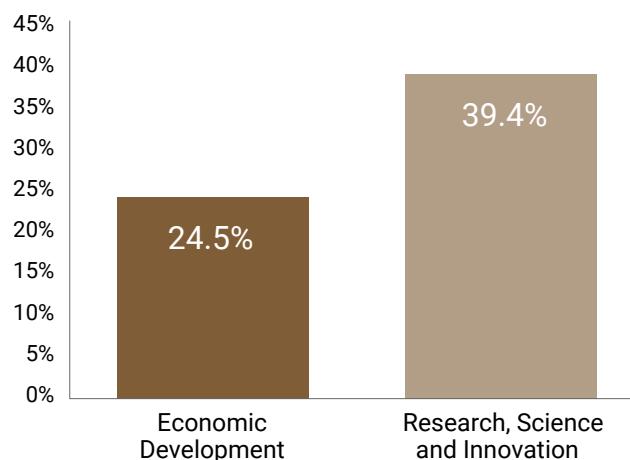
In 2017-18, transfers from the Department of Innovation, Science and Economic Development for the purposes of this analysis totalled \$4.2 billion (Figure 7).<sup>6</sup> These transfer payments have been broken out into two main categories:

- Economic development, delivered by the regional development agencies and directly through Department of Industry programs: \$1.4 billion; and
- Research funding, delivered through granting agencies such as the Natural Sciences and Engineering Research Council (NSERC), Social Sciences and Humanities Research Council (SSHRC), National Research Council and Foundations such as Canada Foundation for Innovation (CFI), Canada Foundation for Sustainable Development Technology, Canadian Institute for Advanced Research: \$2.7 billion.

The Province of Ontario and transfer payment recipients in the province received 34.2 per cent of these funds in 2017-18 (see Figure 8). While Ontario and its post-secondary institutions, businesses and research institutions were able to attract 39.4 per cent of total research transfers, economic development funding allocated to Ontario fell well short of per-capita at only 24.5 per cent of the nationwide total (see Figure 14). The cumulative impact of unprincipled allocations of this category of transfers resulted in an overall gap of \$186 million for Ontario in 2017-18 (see Figure 15).

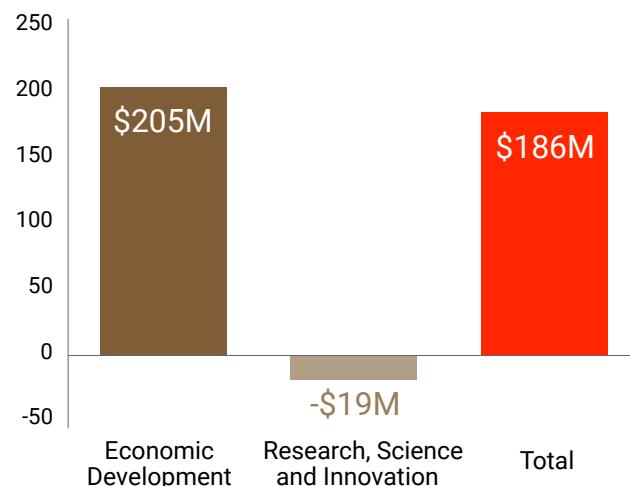
**FIGURE 14**

### Ontario's Share of Economic Development and Research Transfers (%)



**FIGURE 15**

### Ontario's Gap from Principled Allocation for Economic Development and Research Transfers (\$ millions)



6 Transfer payments made by the Department of Innovation, Science and Economic Development totaled \$5.1 billion in 2017-18. However, roughly \$900 million of that amount has been classified as Infrastructure Transfers for the purposes of this analysis, and a further \$50 million of transfers to organizations outside Canada has been excluded.

Much of Ontario's shortfall with respect to Economic Development transfers is driven by considerable variation in transfers made available to the regional development agencies in per-capita terms (see Figure 16). Transfers from the Federal Economic Development Agency for Southern Ontario were only \$10.90 per-capita in 2017-18, which was less than half the national average, a third of that made available to Quebec and a tenth of that made available for the Atlantic provinces. Economic development transfers were also made by Department of Industry programs, including the Northern Ontario Development Program. However, Ontario's businesses, municipalities and other economic development transfer recipients received only 32.8 per cent of these funds.

## FIGURE 16

### Transfers from Regional Economic Development Agencies Per-capita, 2017-18

Regional Economic Development Agencies	Transfers Per-capita
Atlantic Canada Opportunities Agency	111.43
Canadian Northern Economic Development Agency	273.69
Department of Western Economic Diversification	11.30
Economic Development Agency of Canada for the Regions of Quebec	31.79
Federal Economic Development Agency for Southern Ontario	10.90
<b>Total</b>	<b>23.22</b>

With respect to research transfers, Ontario researchers were able to attract a greater-than-per-capita share of funding from the granting councils and foundations.<sup>7</sup> For example, 44.1 per cent of CFI transfers, 40.4 per cent of NSERC transfers and 40.2 per cent of SSHRC transfers were allocated to research in Ontario.

<sup>7</sup> Many of Canada's research foundations, such as the Canada Foundation for Innovation, Sustainable Development Technology Canada, and the Canadian Institute for Advanced Research are headquartered in Ontario and appear as Ontario-based transfer recipients for the purposes of Public Accounts. However, those foundations subsequently fund projects across the country. Information on how these foundations allocate their funding was taken from their individual annual reports where available. See Appendix for more detail.

# Transfers to Indigenous Governments and Organizations

Several federal departments make transfers to Indigenous governments and organizations, including the Departments of Indigenous Services, Indigenous and Northern Affairs, Health, Justice, Public Safety, and Fisheries and Oceans. Those under consideration for the purposes of this analysis totalled \$12.2 billion in 2017-18 (see Figure 7). These transfer payments have been broken out into four main categories:

- » Health: \$1.9 billion
- » Primary and secondary education: \$1.8 billion
- » Post-secondary education and training: \$470 million
- » Everything else, including transfers for infrastructure, justice and administration as well as transfers to negotiate, support and implement comprehensive land claims and self-government agreements: \$8.1 billion.

It is important to note that this analysis only considers transfers to Indigenous governments and organizations, and does not include direct programs for Indigenous peoples that are directly administered by the federal government. An example of such a program is the portion of the Non-Insured Health Benefits Program – which provides registered First Nations and recognized Inuit residents in Canada with a specified range of medically necessary health-related goods and services – that is delivered through direct spending by the Department of Health.

Of the \$12.2 billion of transfer payments made to Indigenous governments and organizations, those located in Ontario received only 17.5 per cent of the total (see Figure 8). This share of funding stands in stark contrast to the share of Indigenous people living in Ontario. Among

those in Canada who identify as having “Aboriginal identity” – including First Nations, Métis, Inuk (Inuit), and multiple – 22.4 per cent live in Ontario (see Figure 17).

## FIGURE 17

Per cent of Indigenous Population Living in Ontario, 2016 Census

Canada	Ontario	Share
1,673,780	374,395	22.4%

Source: Statistics Canada Catalogue no. 98-402-X2016009

Ontario’s Indigenous governments received only 18.0 per cent of transfers dedicated specifically for health care Indigenous people (see Figure 18). This included transfers from programs such as First Nations and Inuit Health Infrastructure Support, First Nations and Inuit Primary Health Care and First Nations and Inuit Supplementary Health Benefits.

Ontario's Indigenous governments and other partners in education received 21.1 per cent of the transfers dedicated to First Nations Elementary and Secondary Educational Advancement (see Figure 18).

Ontario's Indigenous governments, however, received 27.1 per cent of the transfers available from the First Nations and Inuit Youth Participation in Education and Labour Market Opportunities and First Nations and Inuit Post-Secondary Educational Advancement programs (see Figure 18).

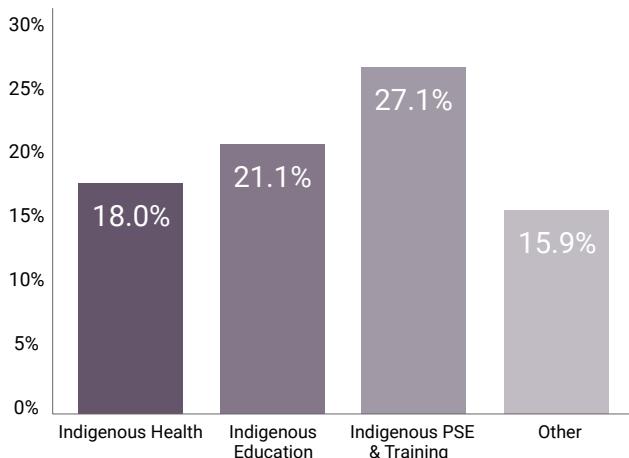
Finally, in the category of all other transfers to Indigenous governments and organizations, those located in Ontario received only 15.9 per cent of available funding in 2017-18 (see Figure 18).

The gap between the funding received by Ontario's Indigenous governments and organizations and a more principled allocation that would have more closely matched Ontario's share of the Indigenous population was \$600 million in 2017-18 (see Figure 19).

It should be noted, however, that of the \$8.1 billion in other transfers to Indigenous governments and organizations, \$2.5 billion of that amount was related to land claims and self-government agreements. Indigenous governments in Ontario received only 7.3 per cent of those funds. There is an argument that the time-limited nature of those types of transfer should warrant their exclusion from this type of analysis. If this route were to be taken, the total gap attributable to the allocation of transfers to Ontario's Indigenous governments and organizations would have been reduced to \$230 million in 2017-18. The impact of this figurative grey area is depicted as the literal grey area on Figure 19.

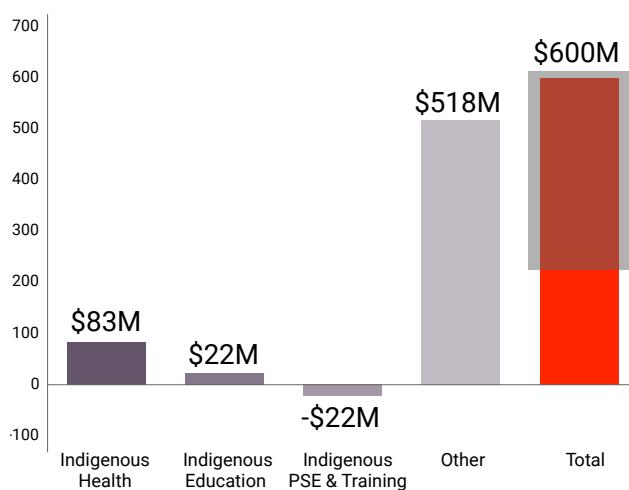
**FIGURE 18**

**Ontario's Share of Transfers to Indigenous Governments and Organizations (%)**



**FIGURE 19**

**Ontario's Gap from Principled Allocation for Transfers to Indigenous Governments and Organizations (\$ millions)**



## Other Transfers to Post-Secondary Institutions, Municipalities and Other Organizations

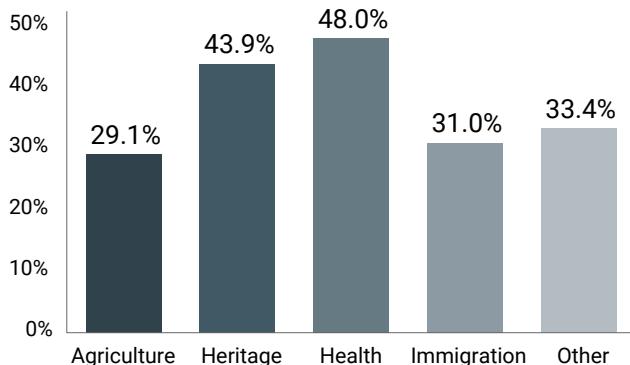
The remaining \$7.6 billion of transfer payments to recipients such as post-secondary institutions, municipalities, and other organizations have been broken out into five main categories:

- » Agriculture: \$1.3 billion<sup>8</sup>
- » Heritage: \$1.3 billion<sup>9</sup>
- » Health: \$1.6 billion
- » Immigration: \$1.3 billion
- » Everything else: \$2.1 billion

The allocations of these transfers give rise to some notable deviations from per-capita distribution (see Figure 20). Were the allocations of all of these transfers deemed to be unprincipled, they would add a cumulative \$115 million to the gap from a principled allocation to Ontario (see Figure 21). However, on a preliminary analysis, it is not abundantly clear that this is the case in all instances.

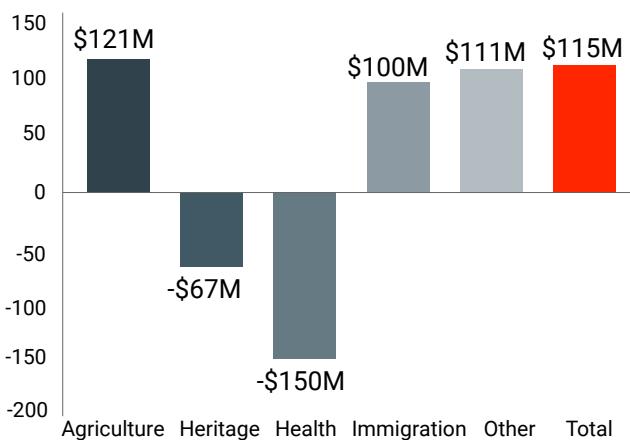
**FIGURE 20**

Ontario's Share of Transfers to Post-Secondary Institutions, Municipalities and Other Organizations (%)



**FIGURE 21**

Illustrative Impact of Deviation from Per-Capita Allocations of Transfers to Other Organizations (\$ millions)



<sup>8</sup> As noted above, certain programs operated by the Department of Agriculture and Agri-Food and the Department of Canadian Heritage provide federal transfers to provincial and territorial governments, provincial crown corporations and privately-owned entities from similar pools of funding. For simplicity of analysis, all federal transfers from these two departments have been classified as transfers to "Other Organizations" and are analyzed in this section.

<sup>9</sup> See footnote above.

For example, a per-capita distribution of agricultural risk management programs – designed to protect farmers from income losses and make investments to improve market income – would not be an appropriate way of achieving those policy goals. Ontario receiving a lower than per-capita share of agriculture transfers is not necessarily problematic from the perspective of a principles-based allocation.

Conversely, there is little evidence that Ontario contains a greater-than-per-capita share of Canada's heritage. As such, further examination of the distribution of these funds may be warranted.

A significant portion of the health-related transfers under examination in this section comes from funding to the Canadian Institutes for Health Research. These funds are allocated on the basis of merit through a peer-reviewed process. Ontario receiving a greater than per-capita share of this funding, therefore, is not necessarily unwarranted.

Much deeper investigation still, however, would be required to ascertain whether regional biases built into the allocation formulas of the three categories of transfers above.

What is more clear, however, is that there are serious shortcomings with respect to the allocation of federal transfers for immigrant settlement. As noted in Figure 20, transfer payment recipients in Ontario received 31.0 per cent of federal transfers for immigrant settlement in 2017-18. However, the destination for 39.1 per cent of permanent residents admitted to Canada in 2017 was Ontario.

Much of this discrepancy was due to Quebec receiving an inordinately large share of federal immigrant settlement funding. In 2017-18, Quebec received federal funding equivalent to \$9,358 per permanent resident admitted to Ontario's \$3,614 (see Figure 22).

## FIGURE 22

### Federal Transfers to Support Immigrant Settlement in Ontario and Quebec, 2017-18

	Ontario	Quebec
Immigrant Settlement Funding (\$ millions)	\$405M	\$490M
Share of Total Immigrant Settlement Funding (%)	31.0%	37.6%
Permanent Residents Admitted	111,925	52,388
Share of Total Permanent Residents Admitted (%)	39.1%	18.3%
Funding per Permanent Resident Admitted	\$3,614	\$9,358

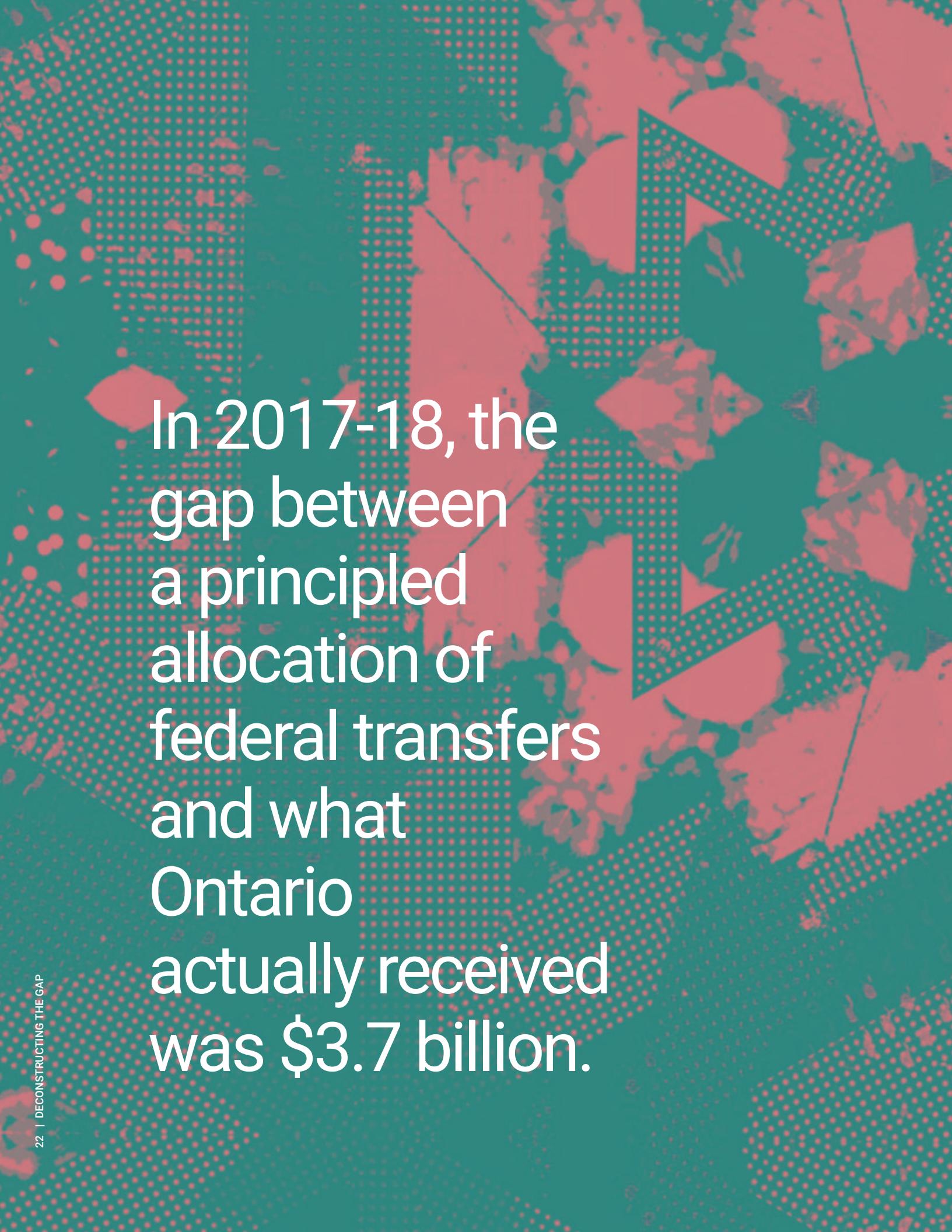
Source for permanent resident admissions: Department of Immigration, Refugees and Citizenship Canada. (2018). *Annual Report to Parliament on Immigration*.

If Ontario were to receive a share of immigrant settlement funding proportionate to its share of permanent resident admissions, it would have received an additional \$105 million in 2017-18 (see Figure 23)

## FIGURE 23

### Ontario's Gap from Principled Allocation of Immigration Settlement Funding (\$ millions)





In 2017-18, the gap between a principled allocation of federal transfers and what Ontario actually received was \$3.7 billion.

# 5 CONCLUSION

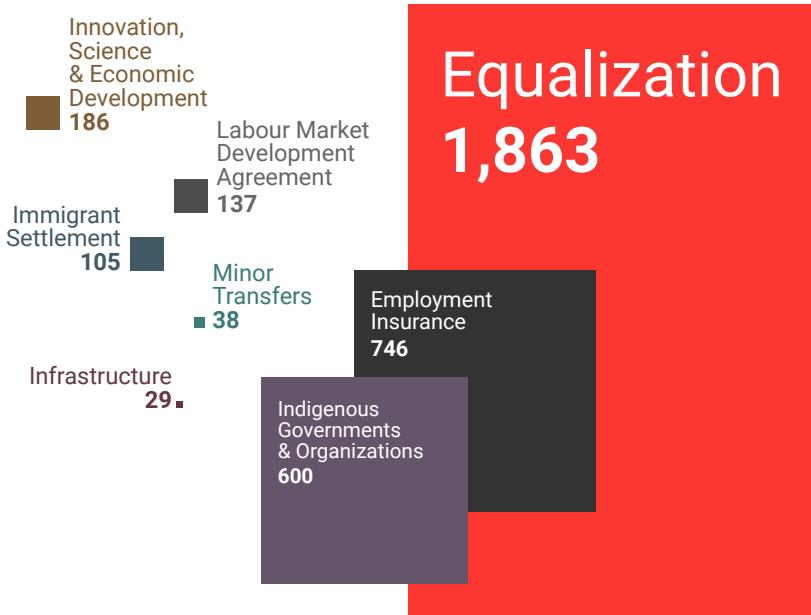
Unprincipled allocation of federal funding leads to a diversion of a significant amount of funding away from Ontario. In 2017-18, the gap between a principled allocation of federal transfers and what Ontario actually received was \$3.7 billion (see Figure 24).

This unfairness directly impacts not only the Province, but also its residents, municipalities, Indigenous governments, businesses, public institutions, and private associations. Indirectly, it affects all Ontarians as the Province is required either to fill that gap or leave priorities unfunded.

**FIGURE 24**

## Impacts of Unprincipled Allocations on Ontario

Transfer	Gap (\$ millions)
Equalization	1,863
Employment Insurance	746
Indigenous Governments and Organizations	600
Economic Development and Research	186
Labour Market Development Agreement	137
Immigrant Settlement	105
Minor Transfers	38
Infrastructure	29
Total	3,705



The path forward is both clear and achievable. As a first step, the federal government should transparently account for its chosen allocation methods. Where deviations from a principles-based allocation exist, these should be explained. Over time, these deviations from principle should be addressed such that federal funding is allocated in the fairest way possible.

# APPENDIX: METHODOLOGICAL NOTES

1. In addition to the items expressly labeled in Figure 6 (Direct Spending, Employment Insurance, Children's Benefits, Old Age Security, Equalization & Territorial Financing, and the Canada Health Transfer & Canada Social Transfer), other spending excluded from this analysis includes: other transfers to individuals, transfers made by Global Affairs and Defence and other transfers to international organizations, transfers to financial institutions to support transfers to individuals (such as Canada Learning Bonds), asymmetrical arrangements (such as offshore natural resource arrangements, Quebec's special arrangement regarding student financial assistance, and funding for territorial health), time-limited transfers to provinces (such as disaster relief and a grant to the Government of Alberta to support provincial actions in Alberta's resource sector), and federal transfers to provinces to support mental health initiatives.
2. In the instance of many federal entities such as granting agencies, councils, foundations, and funds the federal Public Accounts records the entirety of its funding as a transfer to the entity's headquarters. However, these entities subsequently disburse the funding allocated to them across the country. To account for this, federal transfers made to these entities were adjusted according to provincial allocation data taken from the latest available annual reports (year listed) for each entity. Where no data was available, that entity was assumed to have distributed its funding on a per-capita basis. Adjustments to allocation data were made to the following entities: Canada Media Fund (2017-18); Canada Foundation for Innovation (2017-18); Canada Foundation for Sustainable Development Technology (2016-17); Canadian Institute for Advanced Research (2016-17); Centre for Drug Research and Development (per-capita); Genome Canada (per-capita); CANARIE Inc (per-capita); Mitacs Inc (per-capita); Futurpreneur Canada (2016-17); Brain Canada (per-capita). Small adjustments were also made to data for the Social Science and Humanities Research Council (SSHRC), Natural Sciences and Engineering Research Council of Canada (NSERC), and Canada Institutes of Health Research (CIHR) to account for inter-fund transfers. For example, both NSREC and CIHR directed a portion of their funding to SSHRC, which for the purposes of this analysis was subsequently reallocated according to SSHRC's allocation shares, which better matched published regional allocations for those entities.

