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BALANCED BUDGET

ISSUE: Now that the budget is balanced, how is the government moving forward to maintain this balance and address the debt?

KEY MESSAGES:

- The government successfully delivered the first balanced budget since the global recession.
- We've balanced the budget this year and are on track to do so again next year and the year after.
- Ontarians can be confident that our government has taken a fair and balanced approach – one that protects and improves the services that matter to Ontarians.
- Our balanced budget has focused on managing growth in spending and delivering on the best possible value for every dollar spent.

SUGGESTED RESPONSES:

- The *2017 Budget* Plan delivers on the government's *2010 Budget* commitment to restore balance in 2017–18. The province is also projecting continued balance in both 2018–19 and 2019–20.

- For the 2016–17 fiscal year, the government is forecasting a deficit of $1.5 billion, an improvement of $2.8 billion compared to the *2016 Budget* forecast.

    - This marks the eighth year in a row that the government is projecting to beat its deficit target.

- Over the medium term, revenue is forecast to increase from $133.2 billion in 2016–17 to $149.3 billion in 2019–20, while total expense is projected to increase from $134.8 billion to $148.4 billion over the same period.

- The province's program expense outlook is projected to grow at an average annual rate of 2.9 per cent between

2015–16 and 2019–20. This reflects the government's commitment to invest in priority areas such as health care, education, child care expansion and electricity cost relief programs.

- The reserve included in the fiscal plan has been set at $0.6 billion in 2017–18 and 2018–19 and $0.9 billion in 2019–20, reflecting continued prudence while recognizing the confidence arising from a strengthening Ontario economy and a restoring of fiscal balance in Ontario.

- As of the *2017-18 First Quarter Finances*, Ontario's net debt-to-GDP ratio for 2017-18 is projected to be 37.5 per cent, unchanged from the 2017 Budget forecast.

    - The government is setting an interim net debt-to-GDP ratio target of 35 per cent by 2023–24 and continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, projected to be achieved by 2029–30.

BACKGROUND:

- The government is projecting a return to balance in 2017–18, and continued balance in 2018–19 and 2019–20.
- In addition, since peaking in 2014–15, Ontario's net debt-to-GDP ratio has declined to 37.8 per cent in 2016–17, and is projected to continue to decline to 37.2 per cent in 2019–20.

Ontario's Fiscal Plan and Outlook
($ Billions)

	Actual 2015–16	Interim 2016–17	Current Outlook as of Q1[1] 2017–18	Outlook	
				2018–19	2019–20
Revenue	**128.4**	**133.2**	**141.8**	**144.9**	**149.3**
Expense					
Programs	120.9	123.5	129.6	132.3	135.8
Interest on Debt	11.0	11.3	11.6	12.0	12.6
Total Expense	**131.9**	**134.8**	**141.2**	**144.3**	**148.4**
Surplus/(Deficit) Before Reserve	**(3.5)**	**(1.5)**	**0.6**	**0.6**	**0.9**
Reserve	–	–	0.6	0.6	0.9
Surplus/(Deficit)	**(3.5)**	**(1.5)**	**0.0**	**0.0**	**0.0**
Net Debt as a Per Cent of GDP	38.6	37.8	37.5	37.3	37.2
Accumulated Deficit as a Per Cent of GDP	25.2	24.2	23.2	22.3	21.4

1 Changes to the 2017-18 outlook reflects updated Revenue and Expense amounts published in the *2017-18 First Quarter Finances.*

Note: Numbers may not add due to rounding.

2016-17 Interim Fiscal Performance

- Ontario's deficit for 2016–17 is projected to be $1.5 billion — an improvement of $2.8 billion compared with the 2016 Budget forecast. It is also a $2.0 billion improvement compared with the 2015–16 deficit of $3.5 billion.
- Total revenue in 2016-17 is projected to be $2.6 billion above the 2016 Budget Plan largely due to higher taxation revenues and stronger total net incomes from Government Business Enterprises (GBEs), partially offset by lower other revenues.
- Total expense in 2016–17 is projected to be $0.9 billion higher than forecast in the 2016 Budget, as a result of higher program expense and lower interest on debt. This includes the impact of $0.5 billion in lower interest on debt expense for 2016–17 than the forecast in the 2016 Budget, due to lower interest rates and cost-effective debt management.
- The fiscal plan outlined in the 2016 Budget included a $1.0 billion reserve to protect the fiscal outlook against unforeseen adverse changes in the province's revenue and expense forecasts in 2016–17. With a higher than expected revenue forecast exceeding higher projected expense, it is anticipated that the reserve will not be required by year-end and has been drawn down.

2016–17 In-Year Fiscal Performance ($ Millions)			
	Budget Plan	Current Outlook	In-Year Change
Revenue	**130,589**	**133,228**	**2,639**
Expense			
Programs	122,139	123,502	1,362
Interest on Debt	11,756	11,250	(506)
Total Expense	**133,895**	**134,752**	**856**
Reserve	1,000	–	(1,000)
Surplus/(Deficit)	**(4,306)**	**(1,524)**	**2,783**

Note: Numbers may not add due to rounding.

Fiscal Outlook

- The government is projecting a balanced budget in 2017–18, consistent with the plan first laid out in the *2010 Budget*. The province is also projecting continued balance in 2018–19 and 2019–20.
- Total revenue is projected to increase from $133.2 billion to $149.3 billion between 2016–17 and 2019–20, or at an annual average rate of 3.9 per cent. This outlook is above the *2016 Budget* Plan largely because of strong performance in taxation revenues driven by a growing economy. Personal Income Tax and Corporations Tax revenues are boosted by stronger-than-expected assessments for 2015 and prior years. Higher HST revenues reflect upward federal revision to Ontario entitlements due to an increase in Ontario's share of the overall revenue pool and lower housing rebates. Land Transfer Tax (LTT) revenues have been boosted by higher than expected increases in housing prices.
- The medium-term revenue outlook also includes revised estimates related to current federal government's commitments for additional health funding for home care and mental health, projected carbon allowance proceeds, and net revenues from the Province's asset optimization strategy.
- Total expense between 2016-17 and 2019-20 is projected to increase from $134.8 billion to $148.4 billion, and is projected to be higher than forecast at the time of the 2016 Budget. This is a result of the investments the government is making in health, education, electricity cost relief, and other public services that matter to Ontario families, partially offset by lower interest on debt expense. Ontario's medium-term outlook for interest on debt expense is currently below the 2016 Budget estimate, primarily as a result of lower-than-forecast interest rates, along with effective and efficient debt management.
- The province's program expense outlook is projected to grow at an average annual rate of 2.9 per cent between 2015–16 and 2019–20. Over the medium term the outlook is projected to be higher in each of 2016–17, 2017–18 and 2018–19, compared with the medium-term forecast in the 2016 Budget. This increase reflects the investments the government can continue to make as a result of restoring a balanced budget including:
    - Supporting hospitals, children and youth pharmacare, primary care, home care, and mental health services;
    - Supporting enrolment growth in schools, child care expansion and the Highly Skilled Workforce Strategy; and,
    - Supporting electricity cost relief programs under the Fair Hydro Plan.

Change in Medium-Term Fiscal Outlook since the *2016 Budget* ($ Billions)			
	2016–17	**2017–18[1]**	**2018–19**
Surplus/(Deficit) from the *2016 Budget*	**(4.3)**	**0.0**	**0.0**
Total Revenue Changes	**2.6**	**4.1**	**3.0**
Expense Changes			
Net Program Expense Changes	1.4	5.5	4.7
Interest on Debt	(0.5)	(0.9)	(1.1)
Total Expense Changes	**0.9**	**4.6**	**3.6**
Change in Reserve	(1.0)	(0.5)	(0.6)
Fiscal Improvement/(Deterioration)	**2.8**	**0.0**	**0.0**
***2017 Budget* Surplus/(Deficit)**	**(1.5)**	**0.0**	**0.0**

1 Changes to the 2017-18 outlook reflects updated Revenue and Expense amounts published in the *2017-18 First Quarter Finances.*

Note: Numbers may not add due to rounding.

Updates to 2017-18 in the First Quarter Finances

- On August 11th, the government released the 2017-18 First Quarter Finances, which provided an update to the province's 2017-18 outlook for revenue and expense.
- The government is continuing to project a balanced budget in 2017–18, unchanged from the 2017 Budget forecast.
- The 2017–18 revenue outlook, at $141.8 billion, is $145.0 million higher than the 2017 Budget forecast due to new funding for early learning and childcare as a result of a bilateral agreement between Ontario and the federal government.
- The outlook for program expense is $129.6 billion, also slightly higher than the 2017 Budget plan, and reflects a corresponding increase of $145.0 million from the bilateral agreement between Ontario and the federal government for early learning and childcare. In addition, a number of other program expense changes have occurred and have been accommodated within the fiscal plan (i.e., offset from the contingency funds or transfers between ministries). Some key program expense changes offset from the contingency fund include:
    - An increase of $2.7 million for **research** and $85.0 million for **remediation of the English-Wabigoon River system from mercury contamination**, to be undertaken in partnership with First Nations and stakeholders.
    - An increase of $14.8 million as part of the **Lac des Mille Lacs flooding claim settlement** in compensation for flooding of Lac des Mille Lacs First Nation reserve land.
    - An increase of $2.5 million for **famine relief efforts in Yemen, South Sudan, Somalia and Nigeria**.
- Interest on debt expense, at $11.6 billion, is unchanged from the *2017 Budget* forecast.
- Ontario's net debt-to-GDP ratio for the year is projected to be 37.5 per cent, unchanged from the 2017 Budget forecast.
- Ontario's real GDP grew one per cent in the first quarter of 2017, outperforming that of Canada, the United States and all other G7 countries.

2017-18 In-Year Fiscal Performance ($ Millions)			
	2017 Budget Plan	Current Outlook	In-Year Change
Revenue	**141,650**	**141,795**	**145**
Expense			
Programs	129,469	129,614	145
Interest on Debt	11,581	11,581	-
Total Expense	**141,050**	**141,195**	**145**
Reserve	600	600	-
Surplus/(Deficit)	**0**	**0**	**-**
Note: Numbers may not add due to rounding.			

Fiscal Prudence

- As required by the Fiscal Transparency and Accountability Act, 2004, Ontario's fiscal plan incorporates prudence in the form of a reserve to protect the fiscal outlook against unforeseen adverse changes in the Province's revenue and expense. The reserve has been set at $0.6 billion in 2017–18 and 2018–19, and $0.9 billion in 2019–20.
- The fiscal plan also includes contingency funds (both operating and capital) to help mitigate expense risks – particularly in cases where health and safety may be compromised or services to the most vulnerable are jeopardized – that may otherwise adversely affect Ontario's fiscal performance.

RECENT MEDIA COVERAGE:

- August 8, 2017 -- Minister Sousa has a commentary in the Toronto Sun where he refers to Ben Eisen's article from last week and says the province is actually doing just fine with Ontario's balanced budget.
- August 6, 2017 -- The Toronto Sun had a commentary that said the Liberals have "buried us in debt." – based on the Fraser report of last week that said "all is not rosy for Ontarians on the deficit front."
- August 4, 2017 -- QP Briefing reports Financial Accountability Officer Stephen LeClair backs up a Fraser Institute report that claims the government's plans to lower its net debt-to-GDP ratio is overly optimistic. LeClair said the Fraser Institute's report is "consistent" with concerns his office first raised in 2016.
- August 3, 2017 -- The Toronto Sun has written about a new report written by the Fraser Institute that claims the government has no demonstrable plan to lift itself out of debt, or to "lower the key economic indicator known as debt-to-gross domestic product (GDP) ratio." The report says that the debt-to-GDP ratio is currently too high, sitting at 37 per cent, and that the province won't lower that figure to pre-recession levels until 2029-30. Lead author Ben Eisen notes Ontario's $311 billion debt will become a "political football" in the upcoming election year, and that this year's balanced operating budget "doesn't mean that our fiscal problems are solved, or that we can turn the spending tap on. Our debt remains the largest subnational debt in the world."
- August 2, 2017 -- The Toronto Sun has a commentary by Ben Eisen of the Fraser Institute. It notes that although the province has recognized the problem of debt, it won't get back to pre-recession debt-to-GDP levels until about 2040 - three decades after the recession. He writes "if the government didn't have to spend money servicing debt accumulated in past years, and decided to use the resulting surplus to retire existing debt, it would not add to its net debt burden at all this year."
- June 1, 2017 -- There's been some, but not widespread media coverage of the Financial Accountability Officer's latest report. Stephen LeClair's study says a balanced budget is within reach in 2017-18, but over the next five years there's a 'steady

deterioration in the budget deficit' and that it's unlikely the government will balance the budget without significant policy adjustments to raise revenue or lower expense. He predicts the annual deficit could hit $6.5 billion by 2021-22 and the net debt would stand at nearly $392 billion.

- May 30, 2017 -- The Fraser Institute's Ben Eisen and Steve Lafleur have written a piece for the National Post that is critical of the government saying 'Ontario emerged as the poster child for poor fiscal management in Canada, due largely to the province's deep run of deficits." The piece compares Ontario and Alberta's finances in the last decade and concludes that Alberta's fiscal plan now calls for red ink and racking up as much debt per person as Ontario.
- May 17, 2017 -- The prognosis for Canada's debt is manageable but we're in poorer health than a decade ago. The Globe & Mail reports the debt ratio has risen for nearly every province over the past decade and while recurring provincial deficit spending was understandable during and just after the 2008-09 recession, some provinces have taken a long time to stabilize their debt position.
- May 20, 2017 -- An opinion piece by Ben Eisen and Charles Lammam of the Fraser Institute, published in the National Post today, is critical of the government's balanced budget. The article says while the government slowed the rate of spending growth in recent years to an annual 2.2%, there are still serious fiscal challenges.
- April 30, 2017 – The Toronto Sun has a piece by Andre Marin who writes that government has balanced the budget – 'allegedly'. 'I say allegedly as the Auditor General takes issue with Liberal math. According to the AG, we're still a few billion dollars away from the "big celebration".'
- April 29, 2017 -- The National Post's Kelly McParland writes 'The budget claims to be "balanced" even though debt will rise another $26.4 billion this fiscal year. Debt servicing costs will again eat up $1 billion a month, topping all but the highest priority programs. Even to reach those dubious levels, a great deal of hocus pocus was required.'
- April 29, 2017 -- The Globe and Mail has an editorial that notes 'The budget that Ontario Finance Minister Charles Sousa delivered on Thursday, April 27, 2017, is all about an event happening on Thursday, June 7, 2018: the next provincial election.'
- April 28, 2017 – Budget Coverage includes:
    - The Globe and Mail (front page) --'while Ontario's independent Financial Accountability Office has challenged the Liberals on whether they could balance the budget without significant tax increases or spending cuts, Mr. Sousa dismissed any suggestion that his budget forecast is too rosy.'
    - The Globe and Mail (B1) questions where's the plan to tackle the $300 billion in net debt.
    - The National Post has a commentary that refers to the budget as the 'monster that ate Ontario'.
    - The National Post front page -- a column by Chris Selley that questions if people really care if the budget is balanced. "Most Ontarians don't like cuts, it seems, and that's pretty much all Wynne can pin her hopes on' for the upcoming election.
    - The National Post's Andrew Coyne writes 'The only reason it can even claim to have balanced the budget is by pushing more and more of what would previously have been deficit spending off-budget.'
    - The Toronto Star's Martin Regg Cohn writes on the front page that this is 'a pre-pre-election budget - the better to shore up worsening Liberal fortunes. While there's still time, well before next year's campaign.
    - The Ottawa Sun's David Reevely notes that the budget is "superb politics."
    - The Ottawa Sun notes 'government plans to finance next year's election spending spree with millions in new debt.'
    - The Ottawa Sun has a column by Antonella Artuso who writes the "budget is noteworthy for what's not in it - significant tax breaks at a time when U.S.

President Donald Trump is cutting taxes for individuals and businesses."

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