LONG-FORM MEMBER QUESTION: BALANCED BUDGET

DEPUTY MINISTER SCOTT THOMPSON

Question:

- How is Ontario planning to keep a balanced budget?

Answer:

- TBD: Revisions based on updates related to Q3 Finances once available
- My ministry has been working to execute the government's goal of balancing the budget.
- This started with a plan that was first introduced in the *2010 Budget*, when the province started to recover from the recession.
- Ontario today is projecting a balanced budget for 2017–18 and for the next two years, 2018–19 and 2019–20.
- A balanced budget makes available more investment options to spur economic growth and job creation, and helps protect the programs and services people rely on most, such as health care and education.
- Ontario's plan has five main areas of focus:
    - Maximizing revenues without causing undue tax burdens on Ontarians
    - Managing its expenses without detracting from the quality of social services and health programs
    - Balancing revenues and expenses against each other to manage the debt
    - Funding programs that help Ontarians, and
    - Investing in infrastructure to promote economic growth and job creation.

- I will now address each area in turn.

Revenues:

- The 2016–17 Public Accounts show that Ontario's deficit for last year was $991 million — $3.3 billion lower than projected in the 2016 Budget and $0.5 billion lower than the interim projection in the 2017 Budget.
- Fiscal 2016–17 was the eighth year in a row that the Province has beaten its deficit target.
- This was a result of growth in revenue that exceeded growth in program expenses, and lower-than-forecast interest on debt.
- And so part of the plan to balance the budget involves optimizing assets and maximizing revenues.
- The Public Accounts for 2016–17 show total revenues were $140.7 billion, $2.2 billion higher than the 2016 Budget projection.
- Additionally, Ontario's total revenues are projected to grow from this $140.7 billion in 2016–17 to $158.2 billion in 2019–20.
- This increase represents an average annual growth rate of four per cent.
- The higher revenues for 2016–17 — and the projected growth of revenues through 2019-20 — are largely due to higher-than-expected tax revenues, the optimization of government business enterprises, and transfers from the Government of Canada and other non-tax revenue.

- First, let me address tax revenues.
- Growth in revenues over the medium term is driven mainly by taxation revenue, which is projected to increase by $15.6 billion between 2016–17 and 2019–20, or at an average annual rate of 5.2 per cent.
- For fiscal year 2016–17, tax revenues were $293 million higher than projected, mainly due to higher-than-expected Harmonized Sales Tax revenue, reflecting stronger growth in Ontario household expenditures.

- Secondly, the Government of Ontario is also implementing a multi-year strategy to optimize its assets and maximize its revenues through the sales of shares in Hydro One, LCBO head office lands and Ontario Power Generation's head offices.
- The net revenue gains from the sale of qualifying assets are credited to the Trillium Trust for infrastructure investments, such as roads, bridges and public transit.
- The total amount credited to the Trillium Trust as of March 31, 2017 is $5.3 billion.
- The Province continues to grow and maximize revenues from its government business enterprises, such as Hydro One, Ontario Power Generation, the Liquor Control Board of Ontario and Ontario Lottery and Gaming Corporation.
- The forecast of the income from government business enterprises is projected to grow by $0.7 billion between 2016–17 and 2019–20.
- This projection, at an average annual rate of 3.7 per cent, reflects higher net income overall from government business enterprises.

- Thirdly, Ontario received larger Government of Canada transfers — $145 million higher. This increase reflected new funding for early learning and child care flowing from a bilateral agreement between Ontario and the federal government, as previously reported in the 2017-18 *First Quarter Finances*.
- The forecast for subsequent transfers is based on existing federal-provincial funding agreements.
- Overall transfers are projected to grow by $0.9 billion between 2016–17 and 2019–20, or at an average annual rate of 1.2 per cent.
- This largely reflects projected increases in major ongoing Government of Canada transfers and new funding for early learning and child care, and home care and mental health.

- Finally, the forecast for other non-tax revenue is based on projections provided by government ministries and agencies.
- The outlook for other non-tax revenues is projected to increase by $0.4 billion between 2016–17 and 2019–20, or at an average annual rate of 0.7 per cent.
- This increase mainly reflects:
    - Fiscally neutral revenues from carbon allowance proceeds starting in 2017–18
    - Fees, donations and other revenues for the broader public sector, and
    - Revenues from vehicle and driver registration fees.
- This is partially offset by lower revenues due to the removal of the debt retirement charge from commercial, industrial and all other electricity users in 2018–19, and the projected net impact of the government's planned asset optimization strategy.
- Notably, the increase in Ontario's revenue is not attributable to increases in personal tax returns.

Expenses:

- Let me now address expenses.
- The Public Accounts for 2016–17 show that total spending was $141.7 billion, $100 million lower than the 2016 Budget projection.
- Program spending expenses accounted for $130 billion.
- Interest on debt, at $11.7 billion, was down $0.7 billion from the 2016 Budget projection.

- Going forward, program expenses are projected to grow from $130 billion in 2016–17 to $144.2 billion in 2019–20.
- This represents an average annual growth rate of 3.5 per cent.
- Growth in program expenses over the medium term is driven by investments to help the people of Ontario, such as health care, supports for seniors, the

introduction of pharmacare for children and youth under OHIP+, electricity cost relief programs under the Fair Hydro Plan, and new initiatives for small businesses that will lower costs and support growth.

- Interest on debt expenses is projected to grow from $11.7 billion in 2016–17 to $13.3 billion in 2019–20.
- This increase is due to borrowing for capital spending and interest rates that are forecast to rise.
- This represents an average annual growth rate of 4.2 per cent.
- Interest on debt is projected to grow due to borrowing for capital spending and interest rates that are forecast to rise.
- Total expenses are projected to grow from $141.7 billion in 2016–17 to $157.4 billion in 2019–20.
- This represents a manageable average annual growth rate of 3.6 per cent.

Balancing Revenues and Expenses:

- Let me summarize the revenues and expenses together.
- Revenue is forecast to increase from $140.7 billion in 2016–17 to $158.2 billion in 2019–20.
- Total expenses are projected to increase from $141.7 billion to $157.4 billion over the same period.
- Based on these estimates, the Ontario government will effectively balance the budget over the next four years.

Funding Programs, Investing in Infrastructure, Promoting Growth:

- Through targeted, measured and fiscally responsible decisions, Ontario has restored its fiscal and economic strength.
- Strategic investments have helped stimulate the Ontario economy to rise from the depths of recession.

- Over the past three years, Ontario's economy has grown faster than Canada's and that of all other G7 countries.
- The benefits of balanced budgets and a strong economy are already providing the government with the fiscal flexibility to do more to help Ontarians.
- This flexibility enables the government to provide more investments to spur economic growth, job creation and support services people use every day.
- Notable program investments include:
  - $145 million in annual funding to increase the accessibility and affordability of high-quality licensed child care and early learning opportunities
  - $245 million over three years to lower costs for small businesses
  - $155 million over three years to support seniors to remain independent, connected, engaged, healthy and safe
  - $245 million over three years to lower costs for small businesses, create opportunities for growth and simplify their interactions with government.
  - An increase of $1 million in 2017–18 — and then $5 million in 2018–19 and beyond — to provide additional funding through the Northern Communities Grant component of the Ontario Municipal Partnership Fund.

- Growth in program expenses also includes investments in infrastructure.
- In fact, Ontario is making the biggest investment in public infrastructure in its history.
- The government's long-term infrastructure plan to invest about $190 million over 13 years, starting in 2014–15, will contribute to the growth of the economy.
- The government's historic investment in infrastructure includes:
  - $31.5 billion over 10 years for public transit, transportation and other priority infrastructure projects across Ontario
  - $11 billion over 10 years in capital grants to school boards, and
  - $900 million over 10 years for critical maintenance repairs and upgrades.

- These investments will not only create jobs, support business innovation and help draw investors from abroad — they will also contribute to the provincial economy growing at a faster rate than the change in its net debt.
- Investments such as these have helped to stimulate the Ontario economy, which has continued to grow despite an uncertain global climate.
- From 2014 to 2016, Ontario outpaced all G7 countries with its real GDP growth.
- As the result of a balanced budget and Ontario's strong economic growth, the net debt-to-GDP ratio is declining.
- In the 2017 Budget, the Ontario government set an interim net debt-to-GDP ratio target of 35 per cent by 2023–24. The government is now projecting to meet this target a year earlier.
- We continue to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, currently projected to be achieved by 2029–30.

Conclusion:

- In September, the Public Accounts of Ontario 2016–17 reported that the 2016–17 deficit was $1.0 billion, an improvement of $3.3 billion from the $4.3 billion projection in the 2016 Budget.
- Total revenue for 2016–17 came in at $140.7 billion, which was $2.2 billion higher than the 2016 Budget.
- This was largely due to higher-than-expected tax revenues, the optimization of government business enterprises and transfers from the Government of Canada and other non-tax revenue.
- Total spending for 2016–17 came in at $141.7 billion, which was $0.1 billion lower than the 2016 Budget.
- Program spending was $130.0 billion, up $0.6 billion from the plan of $129.4 billion.

- Spending in health, children's and social services, and other programs was higher than planned.
- Interest on debt expense was $11.7 billion, $0.7 billion below the plan of $12.4 billion, due mainly to lower-than-forecast interest rates, and cost-effective borrowing and debt management.
- In conclusion, the Ontario government is on track to balance the budget this fiscal year — 2017–18 — as well as the next two fiscal years.
- Prudently managing the province's finances is one of my ministry's responsibilities to the people of Ontario.
- Thank you.