

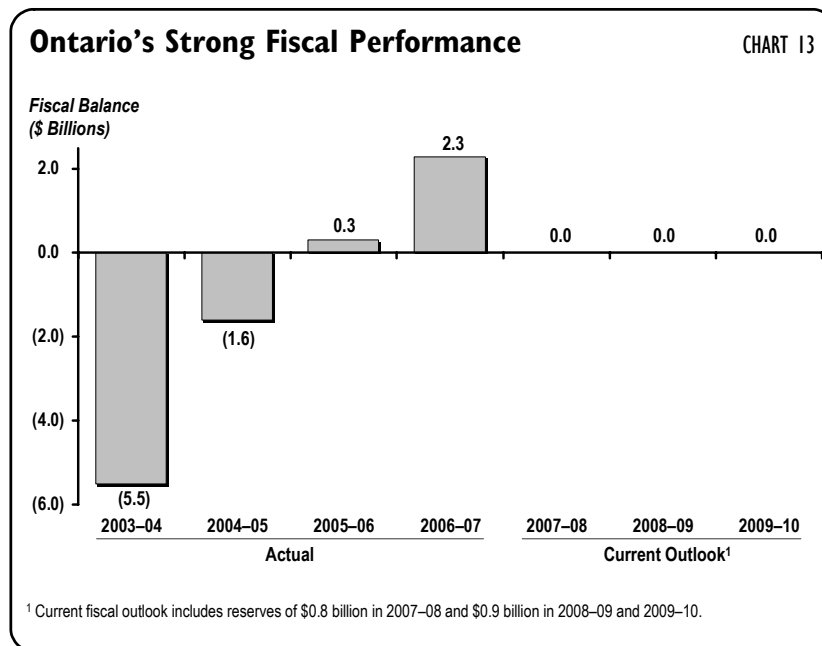
# Section C: Ontario's Fiscal Plan

The government's sound leadership and prudent fiscal management have resulted in a steady improvement from the inherited \$5.5 billion deficit in 2003–04 to the \$2.3 billion surplus recorded in 2006–07. The solid progress made in the Province's fiscal position is also reflected in the improvement in the level of Provincial debt relative to Ontario's gross domestic product (GDP), which improved from 25.2 per cent in 2003–04 to 19.1 per cent in 2006–07 — its lowest level in 15 years.

While eliminating the deficit over this period, the government has also worked to restore public services by increasing funding to priority areas such as health care, education, social services, postsecondary education and training, and infrastructure.

Moving forward, the government is projecting ongoing and sustainable balanced budgets over the medium term. In fact, despite the slower economic growth outlook for 2008 and 2009, the Province is on track to deliver five consecutive balanced budgets between 2005–06 and 2009–10.

The fiscal plan remains prudent in the face of a slower economic growth outlook, with reserves of \$0.8 billion in 2007–08 and \$0.9 billion in 2008–09 and 2009–10.



## KEY ELEMENTS OF ONTARIO'S MEDIUM-TERM FISCAL PLAN

The *Fiscal Transparency and Accountability Act, 2004* sets out a number of criteria that the Province's fiscal plan must meet. These criteria ensure the highest level of transparency and accountability in fiscal planning and reporting.

The act requires the Ontario Government to plan for balanced budgets, which is reflected in the fiscal plan outlined in the *2007 Ontario Economic Outlook and Fiscal Review*. Key elements of the government's fiscal plan that will ensure the achievement of ongoing balanced budgets include:

- making disciplined decisions that hold the average annual rate of growth in total expense to less than the average annual rate of growth in total revenue over the medium term
- taking decisive action to strengthen Ontario's economic advantage through a plan to enhance competitiveness and invest in people and communities and infrastructure
- promoting principled and sustainable federal–provincial fiscal arrangements
- maintaining a prudent debt-to-GDP ratio
- maintaining a cautious and prudent fiscal plan, including an annual reserve.

## 2007–08 FISCAL OUTLOOK

The government is currently projecting a balanced budget in 2007–08. This represents an in-year improvement of \$400 million from the 2007 Ontario Budget Plan and is consistent with the outlook presented in the 2007–08 First Quarter Ontario Finances. Additional information on 2007–08 revenue and expense projections can be found in Section D: *Ontario's Revenue Outlook* and Section E: *Ontario's Expense Outlook*.

| 2007–08 Fiscal Outlook — In-Year Change |                           | Table 8                       |                   |
|---|---------------------------|-------------------------------|-------------------|
| (\$ Millions)                           |                           |                               |                   |
|   | Budget<br>Plan<br>2007–08 | Current<br>Outlook<br>2007–08 | In-Year<br>Change |
| <b>Revenue</b>                          | <b>91,503</b>             | <b>94,100</b>                 | <b>2,597</b>      |
| Expense                                 |                           |                               |                   |
| Programs                                | 82,030                    | 84,283                        | 2,253             |
| Interest on Debt                        | 9,123                     | 9,067                         | (56)              |
| <b>Total Expense</b>                    | <b>91,153</b>             | <b>93,350</b>                 | <b>2,197</b>      |
| Reserve                                 | 750                       | 750                           | –                 |
| <b>Surplus/(Deficit)</b>                | <b>(400)</b>              | <b>0</b>                      | <b>400</b>        |

Total revenue in 2007–08 is currently projected to be \$94,100 million, an increase of \$2,597 million from the 2007 Budget Plan and \$2,014 million from the 2007–08 First Quarter Ontario Finances. This increase is primarily due to a higher taxation revenue outlook, which is boosted by higher

revenues related to processing of prior years' tax returns. In-year revenue changes are discussed in greater detail in Section D: *Ontario's Revenue Outlook*.

The total expense outlook at \$93,350 million is a net \$2,197 million higher than the 2007 Budget Plan and up \$2,014 million from the 2007–08 First Quarter Ontario Finances. This is mainly due to increased spending associated with the government taking decisive action to strengthen Ontario's economic advantage by enhancing Ontario's competitiveness, and investing in its people and communities as well as infrastructure.

## **MEDIUM-TERM FISCAL OUTLOOK**

The government is projecting balanced budgets in each year over the medium term, while remaining prudent in light of the slower economic growth outlook in 2008 and 2009 than projected at the time of the 2007 Budget.

As compared to 2007–08, the revenue outlook in 2008–09 and 2009–10 is moderated by a slower economic growth outlook in 2008 and 2009, reflecting a slower growth outlook for the U.S. economy, higher oil prices and a higher Canadian dollar. The expense outlook continues to reflect the government's commitment to building and investing in public services as outlined in the 2007 *Moving Forward Together* campaign platform.

Overall, the fiscal outlook remains prudent, and a balanced budget is projected in both 2008–09 and 2009–10. The prudent fiscal outlook is reflected explicitly in the reserves, which are set at \$0.8 billion in 2007–08 and \$0.9 billion in each year over the medium term, in recognition of the risks that could materialize due to unanticipated changes in Ontario's economic outlook or in Provincial revenue and expense.

The improvement in Ontario's fiscal position is also reflected in an improving Provincial debt-to-GDP ratio. Since 2003–04, Ontario's debt-to-GDP ratio (debt is defined as accumulated deficit) has improved from 25.2 per cent to 19.1 per cent in 2006–07 — its lowest level in 15 years. It is now projected to improve even further to 18.2 per cent in 2007–08, and to 16.9 per cent by 2009–10.

The following table provides the Province's medium-term fiscal plan and outlook for 2006–07 to 2009–10. Further details are included in Section F: *Details on Ontario's Finances*.

**Medium-Term Fiscal Plan and Outlook**  
(\$ Billions)

**Table 9**

|                          | Actual      | Current Outlook |             |             |
|--------------------------|-------------|-----------------|-------------|-------------|
|                          | 2006–07     | 2007–08         | 2008–09     | 2009–10     |
| <b>Revenue</b>           | <b>90.4</b> | <b>94.1</b>     | <b>95.7</b> | <b>99.0</b> |
| <b>Expense</b>           |             |                 |             |             |
| Programs                 | 79.3        | 84.3            | 85.6        | 88.8        |
| Interest on Debt         | 8.8         | 9.1             | 9.2         | 9.4         |
| <b>Total Expense</b>     | <b>88.1</b> | <b>93.4</b>     | <b>94.8</b> | <b>98.2</b> |
| Reserve                  | –           | 0.8             | 0.9         | 0.9         |
| <b>Surplus/(Deficit)</b> | <b>2.3</b>  | <b>0.0</b>      | <b>0.0</b>  | <b>0.0</b>  |

*Note:* Numbers may not add due to rounding.

## **FISCAL PRUDENCE**

The government is applying a disciplined approach to balancing strategic investments in key priority areas with a plan to achieve fiscal balance every year. The fiscal plan includes key elements of prudence each year to help protect the government’s overall fiscal objectives and ensure the achievement of fiscal targets.

Consistent with the *Fiscal Transparency and Accountability Act, 2004*, the fiscal plan incorporates prudence in the form of a reserve, in recognition of the risks that could materialize due to unanticipated changes in Ontario’s economic outlook or in Provincial revenue and expense.

In light of the slower economic growth outlook and other risks to the economic outlook, the fiscal plan now includes reserves of \$0.8 billion in 2007–08, and \$0.9 billion in 2008–09 and 2009–10. While the reserve is higher over the medium term than the current year to better reflect the uncertain nature of the medium-term revenue and expense projections, it has been lowered from the levels in the 2007 Budget to offset the impact of slower economic growth in 2008 and 2009, and to reflect the reserve as outlined in the 2007 *Moving Forward Together* campaign platform.

## **RISKS AND THE FISCAL OUTLOOK**

The fiscal outlook is subject to change and reflects a continuum of information that begins with the Budget and ends with the Public Accounts. As new information affecting the economic, revenue and expense assumptions arises throughout the year, the fiscal forecasts change. In this context, it is important to note that the forecasts presented in economic and fiscal updates, including the 2007 *Ontario Economic Outlook and Fiscal Review*, represent a point in time along this continuum and are based on the best available information at the time.

The revenue forecast includes assumptions about tax-return filings and growth of key factors such as wages, salaries, disposable income and housing prices. It also reflects current federal–provincial funding arrangements and funding formulas for major health and social transfers. Developing revenue estimates also requires highly detailed economic forecasts, which include assumptions about factors such as the U.S. economic outlook, the Canadian dollar exchange rate, oil prices and economic growth in the rest of Canada.

Variances from revenue estimates arise due to inherent uncertainties involved in predicting the future and lags in information flows. A variance in any of the key factors underlying the revenue assumptions could result in a change to the revenue forecast. A sensitivity analysis of key revenue assumptions and factors is provided in Section D: *Ontario's Revenue Outlook*.

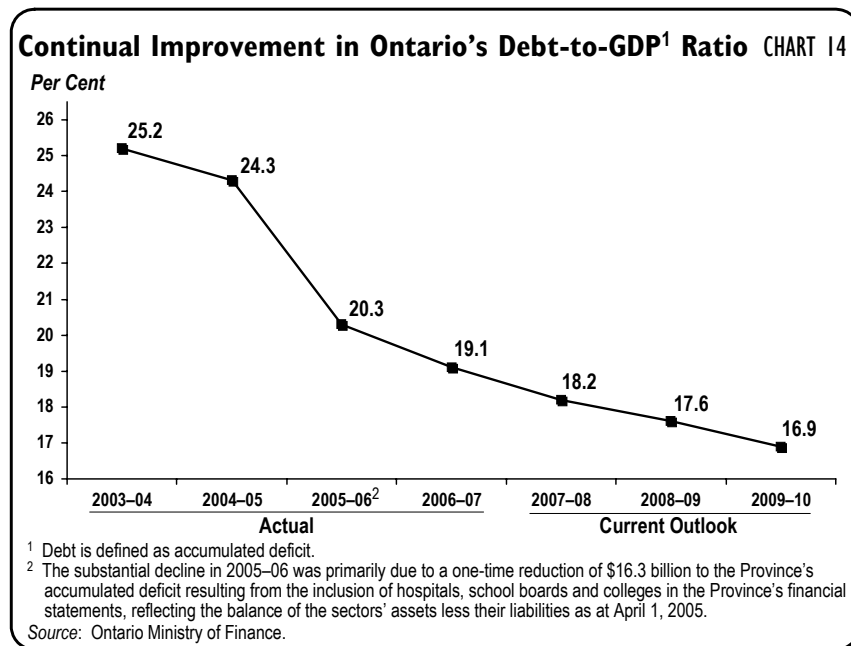
The total expense forecast includes assumptions about program growth and demands, as well as additional planned spending in key priority areas. As many ministries' expense forecasts are based on assumptions about utilization, enrolment or caseloads, a change in these factors could impact total expense, causing changes in the overall fiscal forecast. Section E: *Ontario's Expense Outlook* provides a sensitivity analysis of the key factors affecting the expense forecast.

For example, a change of one per cent to total revenue or total expense in 2009–10 represents about a \$1.0 billion change in the Province's overall fiscal outlook. While this change may be small compared to the government's overall budget, it can cause significant swings in the Province's surplus/deficit. It is due to this type of uncertainty that the fiscal plan includes prudence in the form of a revenue forecast based on prudent economic assumptions, contingency funds and a reserve. Prudent economic assumptions include growth rates for real GDP that are set lower than the average of private-sector forecasts in each year. These forms of prudence exist to help offset any negative impact to the fiscal plan that could result from even a small variance in the revenue and expense forecast.

As the factors and assumptions comprising the revenue and expense forecasts interact and shift, fiscal and economic updates at various times of the fiscal cycle may include adjustments to the revenue and expense forecasts to reflect these changes. Updates such as those provided in the *2007 Ontario Economic Outlook and Fiscal Review* are based on the best available information, and provide transparency around the changes to the fiscal forecast and information on key risks and sensitivities that may affect the fiscal plan.

## MAINTAINING A PRUDENT DEBT-TO-GDP RATIO

A key element of the government's medium-term fiscal plan is the commitment to maintain a prudent level of Provincial debt (where debt is defined as accumulated deficit) relative to the size of Ontario's economy as measured by nominal GDP. Ongoing debt accumulation can significantly limit the extent to which vital public services can be funded, as increasing debt charges can crowd out funds available for spending on government priorities. Responsible fiscal management, therefore, needs to be long term in nature to ensure that future generations are not faced with the erosion of key programs and services.



In line with Ontario's strong fiscal performance in recent years, the Province's debt-to-GDP ratio improved from 25.2 per cent in 2003-04 to 19.1 per cent by 2006-07 — its lowest level in 15 years. It is projected to improve even further to 16.9 per cent by 2009-10.