

Section E: Ontario's Expense Outlook

2007–08 IN-YEAR EXPENSE CHANGES

The total expense outlook for 2007–08 is \$93,350 million, a net \$2,197 million higher than the 2007 Budget Plan and up \$2,014 million from the outlook presented in the 2007–08 First Quarter Ontario Finances, reflecting government announcements made since July and new investments that are being announced as part of this *Economic Outlook and Fiscal Review*. Changes in spending are associated with the government taking immediate action to further strengthen Ontario's economic advantage, and help the manufacturing, forestry, agriculture and tourism sectors better weather Ontario's economic challenges.

Summary of In-Year Expense Changes Since Budget (\$ Millions)	Table 16 2007–08
Program Expense Changes:	
Investing in Infrastructure and Transportation	1,360
Agriculture Sector Support	285
Education Investments	124
Initiatives to Enhance Competitiveness	83
Investing in People and Communities	53
Health Sector Investments	39
Children's and Social Services Investments	30
Justice Sector Investments	26
Northern and Rural Investments	14
Other Investments	7
Total Program Expense Changes	2,021
Operating Contingency Fund – increase for future investments ¹	149
Operating Contingency Fund – offsets	(137)
Capital Contingency Fund – offsets	(19)
Total Expense Changes This Quarter	2,014
Total Expense Changes Reported in First Quarter Ontario Finances	183
Total Expense Changes Since Budget	2,197

¹ The total increase to the Operating Contingency Fund is \$169 million, of which \$20 million will be invested in tourism to expand tourism marketing initiatives and has, therefore, been included under the Initiatives to Enhance Competitiveness.

The following is a detailed explanation of the in-year expense changes since the 2007–08 First Quarter Ontario Finances.

Investing in Infrastructure and Transportation

The government is investing an additional \$1,360 million in infrastructure and transportation. Key expense changes include:

- An additional \$916 million to the **Capital Contingency Fund** for infrastructure priorities.
- An in-year increase of \$301 million in the **Ministry of Public Infrastructure Renewal**, including \$300 million in municipal infrastructure funding to support priorities such as local roads, bridges, water systems and community infrastructure, and \$1 million related to the recent purchase of a downtown Toronto office building for future government accommodation, which is fully offset from the Capital Contingency Fund.
- An increase of \$100 million in the **Ministry of Transportation** to support municipal and regional transit projects that are part of MoveOntario 2020 and priorities for Metrolinx (Greater Toronto Transportation Authority).
- An additional net increase of \$43 million in the **Ministry of Transportation**, which includes \$41 million for various initiatives such as road safety, curbing speeding, highway maintenance and programs targeting greenhouse gas emissions, all offset from the Operating Contingency Fund. An increase of \$3 million in capital expense for the transfer of Black Creek property to the City of Toronto and infrastructure improvements, \$2 million of which is offset from the Capital Contingency Fund. The total increase in funding is offset by a \$1 million transfer to **Colleges** for marine simulator training equipment at the Owen Sound campus of Georgian College.

Agriculture Sector Support

Since the First Quarter Ontario Finances, the government has devoted \$285 million for support to the agriculture sector. Key expense changes include:

- An additional \$150 million in the **Ministry of Agriculture, Food and Rural Affairs** to provide financial assistance to help the cattle, hog and horticultural farmers manage the effects of current market conditions, as well as supporting transitional and transformational initiatives to strengthen competitiveness.
- An in-year increase in the **Ministry of Agriculture, Food and Rural Affairs** of \$135 million for the Risk Management Program to assist grain and oilseed farmers impacted by international subsidies, and additional funding over the medium term of \$326 million.

Education Investments

The government has invested an additional \$124 million in Ontario's publicly funded education system. Key expense changes since the First Quarter Ontario Finances include:

- An in-year increase of \$112 million in the **Ministry of Education school boards' net expense**, including \$109 million in education funding enhancements to strengthen the school funding formula, with additional funding of \$607 million over the medium term; and an increase of \$3 million reflecting a transfer from the Ministry of Children and Youth Services to support and expand Parenting and Family Literacy Centres across the province.
- An additional \$11 million in the **Ministry of Education** to provide further support for programs to improve student achievement, offset from the Operating Contingency Fund.

Initiatives to Enhance Competitiveness

The government has invested an additional \$83 million since the First Quarter Ontario Finances to enhance Ontario's competitiveness by encouraging innovation and stimulating tourism.

Encouraging Innovation

Investments to encourage innovation amount to about \$53 million and include:

- A \$50 million increase to the **Capital Contingency Fund**, which will be allocated to initiatives that further strengthen Ontario as a leading innovation-based economy where ideas created by cutting-edge research will reach the global market and serve as a foundation for tomorrow's jobs.
- Additional spending of more than \$3 million by the **Ministry of Research and Innovation** to support the development of a Bioindustrial Innovation Centre at the University of Western Ontario's Sarnia–Lambton Research Park, offset from the Capital Contingency Fund.

Investing in Tourism

- The government will invest an additional \$30 million in the tourism industry, given the challenges it has faced as a result of the strong Canadian dollar. This investment includes \$20 million to expand tourism marketing initiatives that will attract new domestic and international visitors to communities and major attractions across the province, and \$10 million to support festivals and events in Ontario's communities.

Investing in People and Communities

Investing in Ontario's people remains a key priority for the government. Since the First Quarter Ontario Finances, the government has invested an additional \$53 million in people and their communities. Key expense changes include:

- An increase of \$40 million to the **Ministry of Training, Colleges and Universities** for skills development and Rapid Re-employment and Training Services, which help Ontario workers in hard-hit sectors such as manufacturing with training and other employment supports.
- An increase of \$7 million in the **Ministry of Training, Colleges and Universities**, which includes funding for the expansion of the Nurse Practitioner and the Midwifery Education Programs. Funding offsets include about \$7 million from the Capital Contingency Fund and almost \$1 million from the Operating Contingency Fund. **Colleges** net expense increased by \$1 million as a result of a transfer from the Ministry of Transportation for the marine simulator training equipment at the Owen Sound campus at Georgian College.
- An additional \$5 million to the **Ministry of Economic Development and Trade** to support the Communities in Transition program, for communities facing significant challenges, such as the loss of a major employer, and to help them build a successful future.

Health Sector Investments

Investing in Ontario's health care system remains a key priority for the government. Key expense changes include:

- An in-year increase of \$39 million in the **Ministry of Health and Long-Term Care** to introduce the new, voluntary human papillomavirus (HPV) vaccination program for Ontario's 84,000 young women in Grade 8, offset from the Operating Contingency Fund, and additional funding of \$78 million over the next two years.

Children's and Social Services Investments

Since the First Quarter Ontario Finances, the government has devoted an additional \$30 million to children's and social services programs. Key expense changes include:

- An increase of \$32 million in the **Ministry of Community and Social Services**, primarily for funding enhancements to the Developmental Services program and the Family Responsibility Office, the latter offset by \$7 million from the Operating Contingency Fund. This increase also includes funding for low-income families to assist with the cost of filters to minimize lead exposure from drinking water, offset by \$3 million from the Operating Contingency Fund and by a transfer from the Ministry of the Environment, as well as

enhanced funding to support victims of domestic violence, offset by revenue from the Victims' Justice Fund.

- A net decrease of \$2 million in the **Ministry of Children and Youth Services**, largely the result of a \$3 million transfer to the Ministry of Education to support and expand Parenting and Family Literacy Centres across the province.

Justice Sector Investments

The government has invested an additional \$26 million for justice sector initiatives.

These investments include:

- An increase of \$22 million to the **Ministry of the Attorney General**, including \$12 million for the Smith Inquiry, offset from the Operating Contingency Fund, \$4 million for the transition of the Ontario human rights system and \$1 million for co-location of various tribunals, both offset from the Capital Contingency Fund. Also included in this amount is \$5 million for victims of crime, offset by revenue from the Victims' Justice Fund.
- An additional \$4 million in the **Ministry of Community Safety and Correctional Services**, which includes \$3 million to establish the Provincial Crime Enforcement Team and support the Safe Schools Police Officer Project, and \$1 million to support the Office of the Chief Coroner during the Smith Inquiry, the latter offset from the Operating Contingency Fund.

Northern and Rural Investments

The government continues to support Ontario's northern and rural communities with \$14 million in new investments since the First Quarter Ontario Finances. Key expense changes include:

- An increase of \$10 million in the **Ministry of Aboriginal Affairs**, primarily for land claim negotiations, the new ministry structure and the preliminary response to the Ipperwash Inquiry, offset from the Operating Contingency Fund.
- An additional \$4 million in the **Ministry of Natural Resources**, including an in-year increase of \$2 million for resources to start Far North planning processes, and \$2 million for the first year of a commitment to plant 50 million trees in southern Ontario by 2020, both offset from the Operating Contingency Fund.

Other Investments

Other key areas of strategic government investments since the First Quarter Ontario Finances include:

- An increase of \$20 million in the **Ministry of Revenue** related to the transfer of funding from the Ministry of Finance for administrative costs associated with implementing various Budget initiatives, including the Tobacco Enforcement Initiative and the transfer of Corporate Tax administration to the federal government.
- A net decrease of \$19 million in the **Ministry of Finance** as a result of funding transferred to the Ministry of Revenue for administrative costs associated with implementing various Budget initiatives, including the Tobacco Enforcement Initiative and the transfer of the Corporate Tax Administration program to the federal government; and an increase of \$1 million to support mediated settlements, offset from the Operating Contingency Fund.
- A net increase of \$2 million in the **Ministry of the Environment** resulting from a variety of changes including a transfer from the Ministry of Government and Consumer Services to promote the Go Green Ontario climate change plan; increased funding for initiatives to help address climate change, including the Community Go Green Fund, offset by \$2 million from the Operating Contingency Fund; and a transfer to the Ministry of Community and Social Services to support the drinking water filter program to minimize lead exposure from drinking water.
- An in-year increase of \$2 million in the **Ministry of Energy** to support the development of low-carbon fuel standards, a pilot project for the use of E-85 fuel in government vehicles and funding for an East-West Grid; all initiatives are part of the Go Green Ontario climate change plan and are offset from the Operating Contingency Fund.
- An additional \$2 million in the **Ministry of Tourism** to form the Ontario Vancouver Olympic Committee (VANOC) Secretariat and fund the Own the Podium program, which supports Canadian athletes pursuing podium success at the 2010 Vancouver Olympics, offset from the Operating Contingency Fund.
- An increase of \$1 million in the **Office of Francophone Affairs** to create the Office of the Commissioner of French Language Services, offset from the Operating Contingency Fund.
- A decrease of \$1 million in the **Ministry of Government and Consumer Services** for a transfer of funding to the Ministry of the Environment to promote the Go Green Ontario climate change plan.

The **Operating Contingency Fund** is a net \$32 million higher, reflecting a \$169 million increase arising from the revenue improvements identified since the First Quarter Ontario Finances that will be invested in initiatives that further strengthen Ontario's economic advantage. This increase is offset by a \$137 million decrease that was allocated to fund ministries' expense changes as outlined.

The **Capital Contingency Fund** has increased by a net \$947 million as a result of a \$966 million increase associated with revenue improvements identified since the First Quarter Ontario Finances, which will be invested in Ontario's infrastructure. This increase in the Capital Contingency Fund is offset by a decrease of approximately \$19 million that was allocated to fund ministries' capital expense changes as outlined.

MEDIUM-TERM EXPENSE OUTLOOK

A key element of the fiscal plan is maintaining a prudent and disciplined approach to fiscal planning by ensuring that, over the medium term, the average annual growth in total expense does not exceed the average annual growth in total revenue. Currently, total expense is projected to grow at an average annual rate of 2.5 per cent, which is less than the 2.6 per cent rate at which revenue is expected to grow on an average annual basis.

Program spending, which includes both operating and capital program expense, increases by \$4.5 billion over the medium term, from \$84.3 billion in 2007–08 to \$88.8 billion in 2009–10. This reflects the government's commitments in its 2007 *Moving Forward Together* campaign platform to continue spending in key priority areas such as health, education, postsecondary education and training, social services, and infrastructure. In 2007–08, spending in health, education and children's and social services will account for almost three-quarters of program spending. Given that much of this Provincial spending is based on assumptions about program utilization, enrolment and caseloads, it is important that the government maintain a focused approach to investing in key public services while remaining prudent and disciplined.

Interest on debt expense is included in the total expense of the Province, and is expected to grow over the next three years primarily due to the increase in net debt needed to finance capital projects. Interest on debt is expected to grow from \$9.1 billion in 2007–08 to \$9.4 billion in 2009–10.

Total expense over the medium term will increase from \$93.4 billion in 2007–08 to \$98.2 billion in 2009–10. This represents an increase of \$4.8 billion, reflecting the government's commitments in the 2007 *Moving Forward Together* campaign platform to invest in health, education, postsecondary education and training, social services, and infrastructure.

EXPENSE RISKS AND SENSITIVITIES

Many programs delivered by the Province are subject to potential risks and cost drivers, such as utilization growth or enrolment and caseload changes. The following sensitivities are guidelines only, and are based on averages for program areas that could change depending on the nature and composition of the potential risk. Revenue risks and sensitivities can be found in Section D: *Ontario's Revenue Outlook*.

Selected Expense Risks and Sensitivities		Table 17
Program/Sector	2007–08 Assumption	2007–08 Sensitivities
Health Sector	Annual growth of 6.3 per cent.	One per cent change in health spending: \$380 million.
Hospitals Net Expense	Annual growth of 7.7 per cent.	One per cent change in hospitals net expense: \$174 million.
Drug Programs	Annual utilization growth of 9.0 per cent.	One per cent change in utilization of all drug programs: \$41 million (seniors and social assistance recipients).
Long-Term Care Homes	75,770 funded long-term care home beds. Annual average Provincial operating cost per bed, after resident co-payment revenue, in a long-term care home is \$37,700.	One per cent change in number of beds: approximately \$29 million.
Home Care	Over 17 million hours of homemaking and support services; 10 million nursing and professional visits.	One per cent change in hours of homemaking and support services: \$5 million. One per cent change in nursing and professional visits: \$6 million.
Elementary and Secondary Schools ¹	Almost 1.94 million average daily pupil enrolment.	One per cent enrolment increase: \$150 million increase in school boards' net expense.
University Students ²	322,000 full-time undergraduate and graduate students.	One per cent enrolment change: \$29 million of net expense.
College Students ¹	154,000 full-time students.	One per cent enrolment change: \$13 million.
Ontario Works ²	199,000 average annual caseload.	One per cent caseload change: \$16 million.
Ontario Disability Support Program ²	222,000 average annual caseload.	One per cent caseload change: \$26 million.
Correctional System	3.0 million adult inmate days per year. Average cost of \$160 per inmate per day.	One per cent change in inmate days: \$5 million.
Interest on Debt	Average cost of 2007–08 borrowing is forecast to be approximately 5.1 per cent.	The 2007–08 impact of a 100 basis-point change in borrowing rates is forecast to be approximately \$250 million.

¹ Based on 2007–08.

² Based on 2006–07.

Selected Compensation Costs**Table 18**

Sector	Cost of 1% Salary Increase	Size of Sector
OHIP Payments to Physicians ¹	\$82 million	Over 22,000 physicians in Ontario, comprising 11,100 family doctors and 11,600 specialists.
Hospital Nurses ¹	\$46 million	Over 54,000 full-time equivalent (FTE) nurses in hospitals.
Elementary and Secondary School Staff ²	\$145 million	Almost 200,000 FTEs including teachers, principals, administrators, and support and maintenance staff.
College Staff ³	\$13 million	About 35,000 staff including faculty, administrators, and support and maintenance staff.
Ontario Public Service ⁴	\$52 million	Over 64,000 public servants.

¹ OHIP Payments to Physicians is based on 2007–08; compensation to Hospital Nurses is based on 2006–07.

² One per cent increase in salary benchmarks in Grants for Student Needs based on 2007–08 school year.

³ Based on 2006–07.

⁴ Based on 2005–06, reflects total compensation costs.

CONTINGENT LIABILITIES

In addition to the key demand sensitivities and economic risks to the fiscal plan, there are other risks stemming from the government's contingent liabilities. Whether these contingencies will result in actual liabilities for the Province is beyond the direct control of the government. Losses could result from legal settlements, defaults on projects, and loan and funding guarantees. Provisions for losses that are likely to occur and can be reasonably estimated are expensed and reported as liabilities in the Province's financial statements. Significant contingent liabilities are described as follows.

Ontario Nuclear Funds Agreement

The Province has certain responsibilities with respect to nuclear used fuel waste management and nuclear station decommissioning. The Province, Ontario Power Generation Inc. (OPG), a wholly owned subsidiary, and certain subsidiaries of OPG are parties to the Ontario Nuclear Funds Agreement (ONFA), to establish, fund and manage segregated funds to ensure sufficient funds are available to pay the costs of nuclear station decommissioning and nuclear used fuel waste management. Under ONFA, the Province is liable to make payments should the cost estimate for nuclear used fuel waste management rise above specified thresholds for a fixed volume of used fuel. As well, under ONFA, the Province guarantees a return of 3.25 per cent over the Ontario consumer price index for the nuclear used fuel waste management fund. Ontario has also provided a direct Provincial guarantee to the Canadian Nuclear Safety Commission on behalf of OPG for

up to \$1.5 billion, as at March 31, 2007, which relates to the portion of the decommissioning and waste management obligations not funded by the segregated funds.

Obligations Guaranteed by the Province

Ontario provides guarantees on loans on behalf of various parties. The authorized limit for loans guaranteed by the Province as at March 31, 2007, was \$2.9 billion. The outstanding loans guaranteed and other contingencies amounted to \$2.6 billion at March 31, 2007. A provision of \$416 million based on an estimate of the likely loss arising from guarantees under the Student Support Programs has been reflected in the 2006–07 Consolidated Financial Statements of the Province.

Social Housing — Loan Insurance Agreements

The Province is liable to indemnify and reimburse the Canada Mortgage and Housing Corporation for any net costs, including any environmental liabilities incurred as a result of project defaults, for all non-profit housing projects in the Provincial portfolio. At March 31, 2007, there were \$8.3 billion of mortgage loans outstanding.

Claims Against the Crown

There are claims outstanding against the Crown arising from legal action, either in progress or threatened, in respect of aboriginal land claims, breach of contract, damages to persons and property, and like items. At March 31, 2007, there were 111 claims outstanding against the Crown that were for amounts over \$50 million.

Canadian Blood Services

The provincial and territorial governments of Canada have entered into a Canadian Blood Services Excess Insurance Captive Support Agreement (the “Captive Support Agreement”) with Canadian Blood Services (CBS) and Canadian Blood Services Captive Insurance Company Limited (CBSI), a wholly owned subsidiary of CBS established under the laws of British Columbia. Under the Captive Support Agreement, each government indemnifies CBSI for its pro rata share of any payments that CBSI becomes obliged to make under a comprehensive blood risks insurance policy it provides to CBS. The policy has an overall limit of \$750 million, which may cover settlements, judgments and defence costs. The policy is in excess of, and secondary to, a \$250 million comprehensive insurance policy underwritten by CBS Insurance Company Limited, a subsidiary of CBS domiciled in Bermuda. Given current populations, Ontario’s maximum potential liability under the Captive Support Agreement is approximately \$376 million. The Province is not aware of any proceedings that could lead to a claim against it under the Captive Support Agreement.