



PAPER A: Appendix

Details of Ontario's Finances

Introduction

Paper A, *Building Opportunity, Building a Stronger Ontario*, provided an overview of the Province's key priorities, economic outlook, medium-term fiscal plan and an update on the government's progress on managing change and delivering results.

This appendix provides details on Ontario's recent fiscal performance and other financial information, specifically:

- **Section I:** Fiscal Transparency and Accountability;
- **Section II:** Support from Gaming for Health Care, the Ontario Trillium Foundation and Communities;
- **Section III:** Support for Investments for Healthier Ontarians;
- **Section IV:** Potential Risks, Cost Drivers and Contingent Liabilities; and
- **Section V:** Fiscal Tables and Graphs.

Section I: Fiscal Transparency and Accountability

The government is committed to enhancing transparency and accountability. It has taken a number of key actions in this area.

ENHANCEMENTS IN TRANSPARENCY AND ACCOUNTABILITY

- The Fiscal Transparency and Accountability Act (FTAA) has set new standards for how the Province plans to allocate resources, and how and when it presents financial reports to the people of Ontario.
 - In October 2005, the government issued the first-ever long-range assessment of Ontario's fiscal and economic environment, *Toward 2025: Assessing Ontario's Long-Term Outlook*.
 - For the first time, the Ontario Government will produce a pre-election fiscal report, which will be reviewed by the Auditor General.
 - The government has expanded the Auditor General's authority to carry out value-for-money audits of organizations receiving government funds to deliver front-line services.
 - The government has begun consultations on a new Public Service Act. This initiative seeks to embed in legislation the fundamental principles of public service: accountability, merit, non-partisanship and professionalism, and to provide a strong ethical framework for public servants.
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CONSOLIDATING HOSPITALS, SCHOOL BOARDS AND COLLEGES INTO THE PROVINCE'S FINANCIAL RESULTS

In this Budget, the government is implementing another major change in the way that the finances of the Province are reported to the public. For the first time, the Province's financial reporting in the Budget includes the financial results of three important public-sector partners — hospitals, school boards and colleges of applied arts and technology. Consistent with revised government accounting standards issued by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA), the government will also introduce this expanded information into the Province's Public Accounts when they are published later this year.

The Auditor General of Ontario fully supports the inclusion of hospitals, school boards and colleges in this 2006 Budget:

“...We support the inclusion of these broader public sector entities in the summary financial statements of the Province.... In my opinion, inclusion of colleges, school boards and hospitals in the 2006 Budget will facilitate the comparison of actual results to budgeted results which is an essential ingredient of fiscal public accountability.”

Letter from the Auditor General of Ontario dated March 9, 2006.

The government first announced in the 2004 Budget that it would include hospitals, school boards and colleges in the Province's financial statements on a "one-line" basis starting with the 2005–06 Public Accounts and the subsequent (2007) Budget. By including these entities in the 2006 Budget, the government has advanced that timing by one year, making it easier to compare the 2006 Budget with the 2005–06 Public Accounts published later this year.

The government is also taking a major step towards improving the timeliness of the Province's financial reporting by tabling its 2006 Budget in advance of the start of the 2006–07 fiscal year. Earlier budgets and medium-term outlooks provide our transfer partners with more certainty to facilitate their own planning. The government also plans to advance the date of tabling the 2005–06 Annual Report and Consolidated Financial Statements this year. By providing more comprehensive, comparable and timely financial reporting, the government is further enhancing transparency and accountability.

WHAT DOES CONSOLIDATING HOSPITAL, SCHOOL BOARD AND COLLEGE SPENDING INVOLVE?

The addition of hospitals, school boards and colleges to the Province's books recognizes that these sectors receive most of their funding from the taxpayers of Ontario.

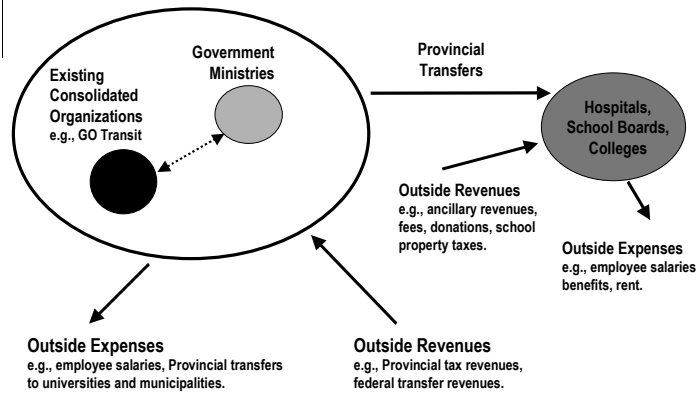
In order to include the financial results of the hospital, school board and college sectors, the government has changed the definition of the Province's expenses in this Budget in accordance with PSAB standards.

- Previously, the Budget recorded the Province's operating and capital grants to these sectors as expenses. Starting with the 2006 Budget, the government is replacing that approach by including the net expenses of these three sectors in its provincial expenses.
- This is being done to reflect fully the portion of the sectors' expenses that provincial taxpayers are responsible for supporting.
- Net expenses are calculated as the operating costs and depreciation of the sectors' assets less any revenues they receive from sources other than the Province. Another way of looking at it is that net expenses represent the total provincial operating and capital grants being provided to the sectors plus or minus their deficits or surpluses.

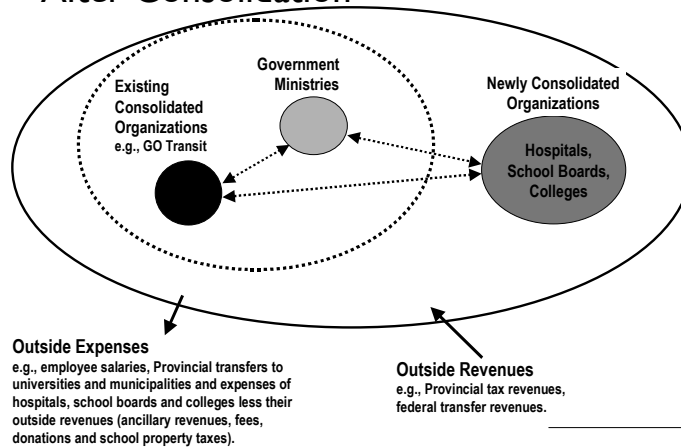
The Province depreciates its capital assets over the years they provide service to the public. Because hospital, school board and college sectors are now part of the Province's reporting entity, the capital funding that the Province provides to these sectors will also now be depreciated over the service lives of their assets instead of being treated as a capital grant expense in the year paid.

These accounting changes do not affect the government's funding for these sectors. Likewise, these changes do not affect the governance of these sectors nor the sectors' ownership of assets.

Financial Reporting — Before Consolidation



Financial Reporting — After Consolidation



IMPLICATIONS OF CONSOLIDATING HOSPITALS, SCHOOL BOARDS AND COLLEGES ON THE PROVINCE'S FINANCIAL PRESENTATION

The PSAB standards provide the criteria for determining whether organizations should be included in the government's financial statements.

PUBLIC SECTOR ACCOUNTING BOARD STANDARDS

- The Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA) is the independent accounting authority setting accounting and financial reporting standards for governments in Canada. The Province adheres to these standards.
- In August 2003, PSAB issued a new accounting standard that established criteria for determining which public-sector organizations should be included in a government's financial statements, starting with the 2005–06 Public Accounts.
- In his 2003 Annual Report, the Auditor General of Ontario noted that, in accordance with this new PSAB standard, Ontario's school boards and colleges may warrant inclusion in the Province's financial statements but universities should not be included. It was also recommended that the government complete its own assessment to determine whether health care organizations should be included. The Province's assessment concluded that, consistent with most other provincial jurisdictions in Canada, hospitals, school boards and colleges should be included in the government's financial statements.

Prior to the 2006 Budget, the government's financial statements included government ministries, government organizations (e.g., GO Transit and Ontario Place) and government business enterprises (e.g., Liquor Control Board of Ontario (LCBO) and Hydro One). With this Budget, the Province's financial statements have been expanded to include the 155 public hospitals including three specialty psychiatric hospitals, 104 school boards and school authorities, and 24 colleges in the province.

With the inclusion of hospital, school board and college sectors in the Province's financial statements, the financial statement presentation in this Budget has changed:

- to highlight that the spending of these sectors is being supported by Provincial revenues, the net expenses of hospital, school board and college sectors are presented on separate lines. Previous budgets included the grants to these sectors as part of the relevant ministry's program and capital spending;
- as most of the Province's capital spending is now being accounted for as capital investments and depreciated over the years that the investments are providing service to the public, the financial presentation of capital has also changed:
 - as depreciation is an ongoing annual expense, the capital expense table has been combined with the operating expense table into a total expenses table, consistent with the presentation in the Province's Public Accounts;
 - the schedule of net investment in capital assets table has been removed;

- the gross capital investment table has been restructured into an infrastructure expenditures table; and
- the assets of these sectors, less their liabilities, are recorded on the Province's balance sheet, reducing its accumulated deficit.

IMPLICATIONS FOR TRANSPARENCY AND ACCOUNTABILITY

Enhanced financial reporting makes it easier for Ontarians to see how their tax dollars are being spent. In prior years, if a broader public-sector organization such as a hospital or school board spent more or less than the total grants and non-Provincial revenue it received, this overspending or underspending was not recorded in the government's financial reports. Only if the government provided grants to the organization to cover deficits was it shown as a provincial expense.

Under the enhanced financial reporting, any sector overspending or underspending compared to their planned net expense will be disclosed in the Province's financial statements and impact its bottom line. As such, the financial performance of the sectors and its impact on the Province's finances will now be transparent to the readers of the Province's financial reports by comparing the sectors' actual net expenses to those planned for the year.

With this revised accounting, if the hospital, school board or college sectors' spending results in a higher or lower net expense than what was planned, this will now affect the Province's fiscal results and will create a risk that the Province will not achieve its targets. While this is not a new risk, the enhanced financial reporting better reflects this risk in Ontario's financial statements.

IMPACT OF CONSOLIDATING HOSPITALS, SCHOOL BOARDS AND COLLEGES

The basic impact of consolidation is that the deficits/surpluses of the hospital, school board and college sectors are added to/subtracted from the provincial grant expenses. The deficits/surpluses of the sectors are composed of:

- deficits/surpluses resulting from their operating activities (i.e., operating revenues less operating expenses); and
- deficits/surpluses resulting from their capital activities (i.e., capital revenues less amortization of capital).

This impact is estimated to be a \$32 million increase in expense in 2005–06 and a \$104 million decrease in expense in 2006–07. The following table shows detailed impact by sector of the consolidation on the Province's expenses for 2005–06 and 2006–07.

**IMPACT OF CONSOLIDATION
(\$ MILLIONS)**

	2005–06 Interim			2006–07 Plan		
	Operating and Capital Grants	Sector Deficit/ (Surplus) ¹	Sector Net Expense	Operating and Capital Grants	Sector Deficit/ (Surplus) ¹	Sector Net Expense
Hospitals	13,979	82	14,061	14,733	(20)	14,713
School Boards	10,758	–	10,758	11,228	(46)	11,182
Colleges	1,308	(50)	1,258	1,397	(38)	1,359
		32			(104)	

¹ Includes impact of depreciation of capital and consolidation accounting adjustments.

In calculating the surpluses and deficits of the sectors, adjustments are made to their financial results before including them in the Province’s financial statements to eliminate double-counting and to make sure that they are consistent with the government’s accounting practices. These adjustments are in accordance with PSAB standards.

CONSOLIDATION ACCOUNTING ADJUSTMENTS

Adjustments to Avoid Double-Counting:

Year-End Cut-Off Differences

- The Province may record an expense as payable in one fiscal year, but a sector organization does not record the receivable as revenue until the following year. The net expenses of the sector would be adjusted to record the revenue in the same year it is received from the Province.

Non-Reciprocal Accounting Treatments

- The Province provides funding for capital investment purposes. While the Province accounts for this funding as an expense in the year that it is transferred to the organization, the colleges and hospitals do not record the transfers as revenues in the year received but amortize them over future years. The net expenses of these sectors are adjusted to record this revenue in the year it is received to reflect the amortization of capital investments over the years that they provide service to the public.

Accounting Consistency Adjustments:

Fiscal Year-End Differences

- School boards have an August 31 year-end, whereas the Province has a March 31 fiscal year-end. The school boards’ net expenses are adjusted to the Province’s fiscal-year basis.

Accounting for School Boards’ Capital Assets

- Under their present accounting practices, school boards do not record capital assets in their financial statements. However, the Province and other sectors do record capital assets in their books. Therefore, the net expenses of school boards are adjusted upon consolidation to record their capital assets and the depreciation of these assets.

SIMPLIFIED EXAMPLE OF A CONSOLIDATION

Assumptions:

- The Province provides an organization with \$50 million in operating grants and \$20 million in capital grants for the year. Total provincial grants are \$70 million.
- The organization includes \$70 million from provincial grants in revenue and \$10 million in third-party donations (outside revenues) in revenues, for total revenues of \$80 million.
- The organization reports \$70 million in operating expenses and \$15 million in expenses for depreciation of its capital assets, for total expenses of \$85 million.
- The organization has a deficit of \$5 million resulting from expenses of \$85 million less total revenues of \$80 million.

Pre-Consolidation Expenses Budgeted in Prior Years

The provincial budget on a pre-consolidated basis included operating grants of \$50 million and capital grants of \$20 million, for a total of \$70 million in expense for the year.

Post-Consolidation Expenses Budgeted Starting with the 2006 Budget

The consolidated 2006 Budget excludes the \$50 million in operating grants and the \$20 million in capital grants from the ministry's program expenses. Instead, the Budget includes the net expenses of \$75 million (\$85 million in expenses less \$10 million in outside revenues) on a separate line. Another way of looking at it is that net expenses equals provincial grants of \$70 million plus the organization's deficit of \$5 million.

Impact of the Consolidation

In this example, the Province's expense increased by \$5 million. This increase is composed of:

- the organization's operating deficit of \$10 million (the organization's operating expenses of \$70 million less their operating revenue of \$60 million), reduced by:
- the capital impact of \$5 million that results from the change in accounting from capital grant expense of \$20 million to the organization's depreciation expense of \$15 million.

The following table illustrates these results.

IMPACT OF CONSOLIDATION (\$ MILLIONS)						
Pre-Consolidation				Post-Consolidation	Expense Impact	
	Organization's Books		Province's Books	Province's Books	Increase/(Decrease)	Province's Books
	Revenues	Expenses	Expenses	Expenses		
Capital	20	15	20	15		(5)
Operating	50	70	50	70		20
Outside Revenue	10	-	-	(10)		(10)
Net Operating	60	70	50	60		10
Total	80	85	70	75		5
	Deficit 5		Grant Expenses 70	Net Expenses 75		5

CHANGES IN FINANCIAL PRESENTATION

The following table summarizes how the adjustments described previously will affect the expenses presented in Table A4 of the 2006 Budget and how it compares to the expense tables in previous budgets.

In the following table, the first column reports the 2006–07 operating information in the format that it would have been reported in Table A4 in the 2005 Budget. The second column reports 2006–07 capital information as it would have been shown in Table A5 in the 2005 Budget. The fourth column shows the adjustments reflecting the consolidation of hospitals, school boards and colleges into the Province’s financial statements. The fifth column sums all of this information into a total line, which is the amount reported in Table A4 of this Budget.

In other words, Table A4 of this Budget captures the information that was presented in the operating and capital expense tables in prior years, adjusted for the consolidation of hospitals, school boards and colleges. This revised presentation is now consistent with Schedule 3 in the Province’s Public Accounts.

Since most of the Province’s capital spending is now being accounted for as investments in capital assets and depreciated or charged to annual expense over the years that these assets provide service to the public, the capital investment tables presented in previous years have also been revised in the Budget.

The table on the Gross Capital Investment (Table A7 in the 2005 Budget) has been restructured into the table on Infrastructure Expenditures — Table A5 in this Budget. The “Total Infrastructure Expenditures” column (column four) in the revised table contains the capital expenditures on the Province’s tangible capital assets, and grants for capital purposes to public-sector entities that have been provided in the Gross Capital Investment Table in previous budgets. In addition, this column, for the first time, reflects grants to school boards and long-term care homes to service the financing of their capital assets. In the 2005 Budget, grants to school boards and long-term care homes were part of the operating expenses.

Furthermore, the “Total Infrastructure Expenditures” column in Table A5 is divided into two major categories (presented in columns two and three of the Infrastructure Expenditures table):

- those infrastructure expenditures, in the second column, that are invested in capital assets and amortized to the Province’s annual expenses over future years. These expenditures are not included in the current-year expenses. Instead, only the amortized portion related to the current year is included in 2006–07 expenses reported in Table A4; and
- those infrastructure expenditures, in the third column, as adjusted for consolidation, that are included in the Province’s current-year expenses in Table A4.

Consistent with the revised Total Expense Table (Table A4 in this Budget), the new Table A5 also identifies separately hospital infrastructure expenditures from other health expenditures and breaks out the school board and college sector expenditures from the other education expenditures on universities.

The interim 2005–06 results (column one) in the Infrastructure Expenditure Table is the Gross Capital Investment Table presented in the 2005 Budget, restated and updated in order to compare 2005–06 interim results with the 2006–07 plan.

Lastly, with the introduction of the new Infrastructure Expenditures Table A5, the Schedule of Net Investments in Capital Assets Table included in previous budgets has been removed. The information on the acquisition and amortization of major tangible capital assets previously shown in this table is presented in the 2005–06 Borrowing Program Table presented in Paper D, *Borrowing and Debt Management*.

2006–07 ILLUSTRATION OF CHANGES IN EXPENSE PRESENTATION (\$ MILLIONS)

Ministry	2006–07 Before Consolidation ¹			2006–07 After Consolidation ²	
	Operating	Capital	Total	Impact of Consolidation	Plan 2006–07
Agriculture, Food and Rural Affairs	607	273	880	–	880
One-Time and Extraordinary Assistance	16	–	16	–	16
Attorney General	1,234	67	1,301	–	1,301
Board of Internal Economy	169	–	169	–	169
Children and Youth Services	3,244	20	3,264	–	3,264
Citizenship and Immigration ³	144	–	144	(53)	91
Community and Social Services	7,007	38	7,045	–	7,045
Community Safety and Correctional Services	1,841	46	1,887	–	1,887
Culture	304	62	366	–	366
Democratic Renewal Secretariat	10	–	10	–	10
Economic Development and Trade	351	–	351	–	351
Education	11,603	10	11,613	(11,175)	438
School Boards ⁴	–	–	–	11,182	11,182
Teachers' Pension Plan (TPP)	408	–	408	–	408
Energy	188	41	229	–	229
Environment	273	29	302	–	302
Executive Offices	19	–	19	–	19
Finance – Own Account	1,056	4	1,060	–	1,060
Interest on Debt	9,429	–	9,429	–	9,429
Ontario Municipal Partnership Fund	731	–	731	–	731
Power Purchases	988	–	988	–	988
Contingency Fund	995	–	995	–	995
Government Services	718	18	736	–	736
Pension and Other Employee Future Benefits	594	–	594	–	594
Health and Long-Term Care	34,677	384	35,061	(14,733)	20,328
Hospitals ⁴	–	–	–	14,713	14,713
Health Promotion	334	29	363	–	363
Intergovernmental Affairs	9	–	9	–	9
Labour	150	–	150	–	150
Municipal Affairs and Housing	628	65	693	–	693
Natural Resources	622	60	682	–	682
Northern Development and Mines	114	233	347	–	347
Office of Francophone Affairs	4	–	4	–	4
Public Infrastructure Renewal	32	82	114	–	114
Contingency Fund	–	175	175	–	175
Research and Innovation	262	83	345	–	345
Secretariat for Aboriginal Affairs	18	3	21	–	21
Tourism	130	31	161	–	161
Training, Colleges and Universities	5,233	40	5,273	(1,397)	3,876
Colleges ⁴	–	–	–	1,359	1,359
Transportation	1,124	819	1,943	–	1,943
Move Ontario	–	6	6	–	6
Year-End Savings	(550)	(150)	(700)	–	(700)
Total	84,716	2,468	87,184	(104)	87,080

¹ Reflects 2006-07 plan as it would have been presented had the Province not consolidated hospitals, school boards and colleges.

² Consolidation refers to the consolidation of hospitals, school boards and colleges.

³ Adult English-as-a-Second Language transfer payments from the Ministry of Citizenship and Immigration to school boards, are on consolidation included in school-board net expenses.

⁴ Represents net expenses.

Section II: Support from Gaming for Health Care, the Ontario Trillium Foundation and Communities

Provincial proceeds from gaming activities continue to support Provincial priorities, including the operation and support of hospitals, charities, amateur athletes, communities and the agricultural sector.

SUPPORT FOR HEALTH CARE, CHARITIES, AND PROBLEM GAMBLING AND RELATED PROGRAMS (\$ MILLIONS)

	Interim 2005-06	Plan 2006-07
Lotteries, Charity Casinos and Slot Machines at Racetracks Revenue		
Operation of Hospitals	1,498	1,437
Ontario Trillium Foundation	100	100
Problem Gambling and Related Programs	36	36
Ontario Amateur Athletes	3	13
Commercial Casinos Revenue		
General Government Priorities	316	157
Total	1,953	1,743

Sources: Ontario Ministry of Public Infrastructure Renewal and Ontario Ministry of Finance.

REVENUE FROM LOTTERIES, CHARITY CASINOS AND SLOT MACHINES AT RACETRACKS

The Ontario Lottery and Gaming Corporation Act, 1999 requires that net Provincial revenue generated from lotteries, charity casinos and racetrack slot machines support services such as the operation of hospitals, problem gambling and related programs, and funding for charitable organizations through the Ontario Trillium Foundation.

- In 2006-07, an estimated \$1,437 million in net revenue from lotteries, charity casinos and slot machines at racetracks will be applied to support the operation of hospitals. While this level of support for hospitals from gaming revenue is down slightly from last year, hospitals' net expense on a consolidated basis will increase by \$652 million this year to \$14.7 billion made up from other government revenues.
- In 2006-07, the Ontario Trillium Foundation will be provided with \$100 million to help build strong and healthy communities through contributions to charitable and not-for-profit organizations.

- Two per cent of gross slot machine revenue, estimated at \$36 million for 2006–07, is allocated for problem gambling prevention, treatment and research programs.
- The Quest for Gold Lottery will provide an estimated \$13 million for 2006–07 in direct financial support to Ontario high-performance amateur athletes. This funding will also support enhanced coaching and skills development.

BENEFITS FROM COMMERCIAL CASINOS

- In 2006–07, net Provincial revenue from commercial casinos, estimated at \$157 million, will be used to support general government priorities, including health care, education and public infrastructure.
- Since their inception, commercial casino operations have created 27,000 direct and indirect jobs in Ontario. Commercial casino operations and the additional tourists they attract contribute an estimated \$2.4 billion annually to the Ontario economy.

OTHER BENEFICIARIES OF CHARITY CASINOS AND SLOT MACHINES AT RACETRACKS

SUPPORT FOR THE AGRICULTURAL SECTOR AND MUNICIPALITIES¹ (\$ MILLIONS)

	Interim 2005–06	Plan 2006–07
Agricultural Sector	296	315
Municipalities	73	76
Total	369	391

¹ The agricultural sector's share of racetrack slot-machine revenue and municipalities' share of slot-machine revenue from charity casinos or racetrack slot facilities is received directly from the Ontario Lottery and Gaming Corporation.

Source: Ontario Ministry of Public Infrastructure Renewal.

- Twenty per cent of gross revenue from slot machines at racetracks is provided to promote the economic growth of the horse-racing industry. Since 1998, this initiative has provided over \$1.7 billion to Ontario's horse-racing industry, a key component of the Province's agricultural sector. For 2006–07, additional support is estimated at \$315 million.
- A portion of gross slot-machine revenue, estimated at \$76 million in 2006–07, will be provided to municipalities that host charity casinos and slot operations at racetracks. These revenues will help offset local infrastructure and service costs.

Section III: Support for Investments for Healthier Ontarians

The government's priority of achieving Better Health for Ontarians includes programs and services funded by the Ministries of Health and Long-Term Care, and Health Promotion.

YEAR-OVER-YEAR INCREASES IN FUNDING CONTRIBUTING TO BETTER HEALTH (\$ MILLIONS)

	Increase 2006-07
Ministry of Health and Long-Term Care:	
OHIP Services – to fund services provided by physicians and other health care practitioners including the implementation of the 100 newly announced Family Health Teams.	523
Home Care, Community and Mental Health Services – to expand home care services to over 13,000 additional Ontarians, and supporting almost 15,000 additional mental health clients in communities.	210
Long-Term Care Homes — to enhance the quality of care provided to over 75,500 residents of long-term care homes.	155
Other – primarily to support services provided by public health units, including increasing the Provincial share of public health unit costs to 75 per cent in January 2007; and funding for Ontario drug programs and emergency services.	283
Subtotal (excluding Hospitals)	1,171
Hospitals – increase in net expense of 155 hospitals (including three specialty psychiatric hospitals), including funding for over 300,000 additional surgical and diagnostic procedures compared to 2003-04.	652
Ministry of Health Promotion:	
Chronic Disease Prevention and Health Promotion — to support programs and services that promote healthy choices and lifestyles, prevent injuries and reduce stress.	68
Sports and Recreation ¹ – primarily to increase physical activity participation to 55 per cent by 2010.	8
Total Ministry of Health Promotion	76
Total Increase in Funding	1,899

¹ Excludes an increase of \$28.5 million for capital investment.

Source: Ontario Ministry of Finance.

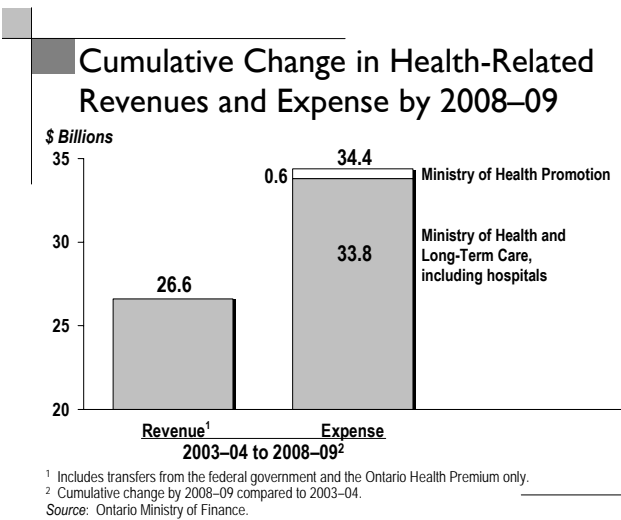
In 2006-07, the Ministry of Health and Long-Term Care will spend \$1,823 million more than in the previous year. If all spending in the health sector is considered, the Province will be spending \$1,899 million more in 2006-07 than in 2005-06. Health-related revenues, including federal transfer payments (such as the Canada Health Transfer, Wait Times Reduction Fund and the Public Health and Immunization Trust), Employer Health Tax, Ontario Health Premium and net proceeds from the Ontario Lottery and Gaming Corporation, are expected to increase by \$93 million in 2006-07.

It should be noted that all health-related revenues contribute only a portion of total health-related spending. In 2006–07, health-related revenues are expected to amount to \$16.6 billion, or only about 47 per cent of the \$35.4 billion required for the Ministries of Health and Long-Term Care and Health Promotion.

By 2008-09, the Province’s cumulative additional investment in Better Health will total \$34.4 billion. The overall cumulative total revenue from the Ontario Health Premium and federal transfers to support health care will amount to \$26.6 billion in 2008–09.

It is important to note that the government also supports a wide range of other programs and services that contribute to better health outcomes. For example,

children’s mental health programs, provided by the Ministry of Children and Youth Services; drug benefits, provided by the Ministry of Community and Social Services; and medical education programs, provided by the Ministry of Training, Colleges and Universities; all contribute to better health for Ontarians.



Section IV: Potential Risks, Cost Drivers and Contingent Liabilities

As required by the Fiscal Transparency and Accountability Act, 2004, this section highlights some of the key sensitivities and risks to the fiscal plan that could follow from unexpected changes in economic conditions, program demands, or the materialization of liabilities. It should be cautioned that these sensitivities and risks are only guidelines and can vary, depending on the nature and composition of potential risks and liabilities.

THE ONTARIO ECONOMY AND PROVINCIAL REVENUES

A growing economy with rising incomes, corporate profits and consumer spending generates higher revenues to pay for public services. Taxation revenues are the largest category of Provincial revenue. Of the total \$85.7 billion in revenues forecast for 2006–07, \$61.3 billion, or about 71 per cent, is expected to come from taxation revenues. Three revenue sources within this category — Personal Income Tax, Retail Sales Tax and Corporations Tax — account for about 56 per cent of total revenues. Inherent in any multi-year forecast is uncertainty about the future, making cautious and prudent planning a critical element of any deficit-reduction plan.

This section highlights some of the key sensitivities and risks to the fiscal plan that could follow from unexpected changes in economic conditions. The economic assumptions on which the revenue projections are based are described in the Appendix to Paper B, *Ontario's Economic Outlook*.

SELECTED ECONOMIC AND REVENUE RISKS AND SENSITIVITIES

Item/Key Components	2006–07 Assumption	2006–07 Sensitivities
Total Revenues		
– Real GDP	2.3 per cent growth in 2006	\$645 million revenue change for each percentage point change in real GDP growth. Can vary significantly, depending on composition and source of changes in GDP growth.
– GDP Deflator	2.2 per cent increase in 2006	
– Canadian Interest Rates	4.0 per cent three-month treasury bill rate in 2006	Between \$65 million and \$325 million revenue change in the opposite direction for each percentage point change in interest rates.
– U.S. Real GDP	3.4 per cent growth in 2006	Between \$195 million and \$475 million revenue change for each percentage point change in U.S. real GDP growth.
– Canadian Dollar Exchange Rate	87.0 cents US in 2006	Between \$25 million and \$115 million revenue change in the opposite direction for each one cent change in the Canadian dollar exchange rate.
Total Taxation Revenues		
– Revenue Base ¹	3.6 per cent growth in 2006–07	\$590 million revenue change for each percentage point change in nominal GDP growth. Can vary significantly, depending on composition and source of changes in GDP growth.
– Nominal GDP	4.5 per cent growth in 2006	
Personal Income Tax Revenues		
– Revenue Base	5.6 per cent growth in 2006–07	
<i>Key Economic Assumptions</i>		
– Wages and Salaries	4.7 per cent growth in 2006	\$240 million revenue change for each percentage point change in wages and salaries growth.
– Employment	1.3 per cent growth in 2006	
– Unincorporated Business Income	4.2 per cent growth in 2006	
<i>Key Revenue Assumptions</i>		
– Net Capital Gains Income	18.0 per cent decrease in 2006	\$4 million revenue change for each percentage point change in net capital gains income growth.
– RRSP Deductions	6.0 per cent growth in 2006	\$15 million revenue change in the opposite direction for each percentage point change in RRSP deductions growth.
– 2005 Tax-Year Assessments ²	\$20.3 billion	\$203 million revenue change for each percentage point change in 2005 Personal Income Tax assessments. ³
– 2004 Tax-Year and Prior Assessments ²	\$0.8 billion	\$8 million revenue change for each percentage point change in 2004 and prior Personal Income Tax assessments. ³

SELECTED ECONOMIC AND REVENUE RISKS AND SENSITIVITIES

Item/Key Components	2006–07 Assumption	2006–07 Sensitivities
Retail Sales Tax Revenues		
– Revenue Base	4.2 per cent growth in 2006–07	
<i>Includes:</i>		
– Taxable Household Spending	3.6 per cent growth in 2006–07	
– Other Taxable Spending	4.9 per cent growth in 2006–07	
<i>Key Economic Assumptions</i>		
– Retail Sales	4.2 per cent growth in 2006	
– Nominal Consumption Expenditure	4.3 per cent growth in 2006	\$90 million revenue change for each percentage point change in nominal consumption expenditure growth.
Corporations Tax Revenues		
– Revenue Base	2.7 per cent growth in 2006–07	
– Corporate Profits	3.8 per cent growth in 2006	\$65 million revenue change for each percentage point change in pre-tax corporate profit growth.
– 2005–06 Tax Assessment Refunds ⁴	\$1.2 billion payable in 2006–07	\$12 million revenue change in the opposite direction for each percentage point change in 2005–06 refunds. ³
– 2005–06 Tax Payments upon Filing	\$0.5 billion receivable in 2006–07	\$5 million revenue change for each percentage point change in 2005–06 payments upon filing. ³
– 2005–06 Tax Assessment Payments	\$0.6 billion receivable in 2005–06 and 2006–07	\$6 million revenue change for each percentage point change in 2005–06 assessment payments. ³
Employer Health Tax Revenues		
– Revenue Base	4.3 per cent growth in 2006–07	
– Wages and Salaries	4.7 per cent growth in 2006	\$35 million revenue change for each percentage point change in wages and salaries growth.
Ontario Health Premium Revenues		
– Revenue Base	4.9 per cent growth in 2006–07	
– Personal Income	4.7 per cent growth in 2006	\$25 million revenue change for each percentage point change in personal income growth.
– 2005 Tax-Year Assessments	\$2.4 billion in 2005	\$24 million revenue change for each percentage point change in 2005 Ontario Health Premium Assessments.

SELECTED ECONOMIC AND REVENUE RISKS AND SENSITIVITIES

Item/Key Components	2006–07 Assumption	2006–07 Sensitivities
Gasoline Tax Revenues		
– Revenue Base	0.1 per cent growth in 2006–07	
– Gasoline Pump Prices	88.0 cents per litre in 2006	\$2 million revenue change in the opposite direction for each cent per litre change in gasoline pump prices.
Fuel Tax Revenues		
– Revenue Base	0.7 per cent growth in 2006–07	
– Real GDP	2.3 per cent growth in 2006	\$13 million revenue change for each percentage point change in real GDP growth.
Land Transfer Tax Revenues		
– Revenue Base	1.4 per cent decline in 2006–07	
– Housing Resales	4.7 per cent decline in 2006	\$10 million revenue change for each percentage point change in both the number and prices of housing resales.
– Resale Prices	3.0 per cent growth in 2006	
Health and Social Transfers		
– Canada-wide Revenue Base	\$28.6 billion in 2006–07	
– Ontario Revenue Share	37.7 per cent in 2006–07	
– Ontario Population Share	38.9 per cent in 2006–07	\$44 million revenue change for each tenth of a percentage point change in population share.
– Ontario Basic Federal PIT Share	43.9 per cent in 2006–07	\$6 million revenue change in the opposite direction for each tenth of a percentage point change in Basic Federal Personal Income Tax base share.
¹ Revenue base is revenue excluding the impact of measures, adjustments for past Public Accounts estimate variances and other one-time factors. ² Ontario 2005 Personal Income Tax (PIT) is a forecast estimate because most 2005 tax returns are yet to be assessed by the Canada Revenue Agency. Some tax amounts for 2004 and prior years are also yet to be assessed. ³ Any change in 2005 or prior-year PIT assessments or 2005–06 Corporations Tax revenues will have an effect on 2006–07 revenues through a change in the revenue base upon which this year's growth is applied. ⁴ Corporations Tax refunds for 2005–06 are still subject to uncertainty because a high proportion of corporations have until June 30, 2006 to file their 2005 tax returns.		

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 based on averages for program areas and might change, depending on the nature and composition of the potential risk.

SELECTED EXPENSE RISKS AND SENSITIVITIES		
Program/Sector	2006–07 Assumption	2006–07 Sensitivities
Health Sector	Annual growth of 5.8 per cent.	One per cent change in health spending: \$354 million.
Hospitals	Annual growth of 4.6 per cent.	One per cent change in hospital net expense: \$147 million.
Drug Programs	Annual growth of 10 per cent.	One per cent change in utilization of all drug programs: \$35 million (seniors and social assistance recipients).
Long-Term Care Homes	More than 75,500 long-term care home beds.	Annual average Provincial operating cost per bed, after resident co-payment revenue, in a long-term care home is \$38,000. One per cent change in number of beds: \$28 million.
Home Care	Over 16.7 million hours of homemaking and support services; 8.9 million nursing and professional visits.	One per cent change in hours of homemaking and support services: \$4 million. One per cent change in nursing and professional visits: \$6 million.
Elementary and Secondary Schools ¹	Almost two million average daily pupil enrolment.	One per cent enrolment change: \$160 million school boards' net expense.
University Students ¹	314,000 full-time undergraduate and graduate students.	One per cent enrolment change: \$22 million of net expense.
Ontario Works ¹	201,000 average annual caseload.	One per cent caseload change: \$16 million.
Ontario Disability Support Program ¹	233,000 average annual caseload.	One per cent caseload change: \$24 million.
College Students	151,000 full-time students.	One per cent enrolment change: \$7 million.
Interest on Debt	Average cost of borrowing is forecast to be approximately 5.1 per cent.	The impact of a 100 basis-point change in borrowing rates is forecast to be approximately \$250 million.
Correctional System	2.8 million adult inmate days per year.	Average cost \$162 per inmate per day. One per cent change in inmate days: \$5 million.

¹ Based on 2005–06.

COMPENSATION COSTS

Compensation costs and wage settlements are key cost drivers and have a substantial impact on the finances of both the broader public-sector partners and the Province.

Sector	Cost of 1% Salary Increase	Size of Sector
OHIP Payments to Physicians ¹	\$75 million	Almost 22,000 physicians in Ontario including approximately 10,900 family doctors and 11,100 specialists.
Hospital Nurses ²	\$43 million	Over 53,000 full-time equivalent (FTE) nurses in hospitals.
Elementary and Secondary School Staff ³	\$121 million	Over 190,000 staff including teachers, principals, administrators, and support and maintenance staff.
College Staff ⁴	\$11 million	Almost 35,000 staff including faculty, administrators, and support and maintenance staff.
Ontario Public Service ⁵	\$51 million	Over 64,000 public servants.

¹ Based on 2006–07 outlook.

² Based on 2005–06.

³ One per cent increase in salary benchmarks in Grants for Student Needs based on 2005–06 school year.

⁴ Based on 2004–05.

⁵ 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 additional 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 that can be reasonably estimated are expensed and reported as liabilities in the Province's financial statements. Significant contingent liabilities, as disclosed in the 2004–05 Annual Report and Consolidated Financial Statements released in September 2005, are described below.

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. The Province has also provided a direct Provincial guarantee to the Canadian Nuclear Safety Commission on behalf of OPG for up to \$1.5 billion, which relates to the portion of the decommissioning and waste management obligations not funded by the segregated funds.

Obligations Guaranteed by the Province

The Province provides guarantees on loans on behalf of various parties. The authorized limit for loans guaranteed by the Province as at March 31, 2005 was \$3.9 billion. The outstanding loans guaranteed and other contingencies amounted to \$3.2 billion at March 31, 2005. A provision of \$409 million based on an estimate of the likely loss arising from guarantees under the Student Support Programs has been expensed and is reflected in the 2004–05 Annual Report and 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, 2005, there were \$8.8 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, 2005, there were 82 claims outstanding against the Crown that were for amounts over \$50 million.

Section V: Fiscal Tables and Graphs

The following pages provide details on Ontario's finances — both historical and projections over the medium term.

Key tables consist of:

- Medium-Term Fiscal Plan and Outlook (2005–06 to 2008–09);
- 2006–07 Fiscal Outlook;
- Details of Provincial Revenue (2002–03 to 2006–07);
- Details of Provincial Total Expense, by Ministry (2002–03 to 2006–07);
- Details of Infrastructure Expenditures (2006–07);
- Summary of Line-by-Line Consolidated Organizations (2005–06); and
- Ten-Year Review of Selected Financial and Economic Statistics (1997–98 to 2006–07).

Key graphs consist of:

- Composition of Revenue (2006–07);
- Composition of Total Expense (2006–07); and
- Composition of Program Expense (2006–07).