



RESPONSIBLE FISCAL MANAGEMENT

2005-06 Deficit Cut To \$1.4 Billion – Down 75 Per Cent From \$5.5 Billion Inherited In 2003-04

Eliminating the Deficit

The McGuinty government is on track to eliminate the inherited fiscal deficit — no later than 2008-09. A balanced budget will be achieved one year earlier in 2007-08 if the reserve is not needed. The 2005-06 deficit is now projected to be \$1.4 billion, down from \$1.6 billion in 2004-05 and 75 per cent lower than the \$5.5 billion deficit in 2003-04.

Higher revenues, combined with lower interest on debt expense, and a disciplined approach to fiscal planning have given the government flexibility to invest further in key priority areas and still improve upon the 2005 Budget deficit projection for 2005-06 of \$2.8 billion.

Key Elements of Ontario's Medium-Term Fiscal Plan

The key elements of the government's fiscal plan to eliminate the deficit by 2008-09 at the latest include:

- making disciplined decisions that hold the annual rate of growth in total spending to 3.0 per cent on average over the medium term — much less than the 4.7 per cent average annual rate of growth in total revenue;
- promoting a strong economy by investing in Ontario's infrastructure, health care, education, and postsecondary education and training;
- working constructively with the federal government towards a principled and sustainable set of federal-provincial fiscal arrangements; and
- responsibly maintaining a cautious and prudent fiscal planning process, including an annual reserve.

Medium-Term Fiscal Outlook

The medium-term expense outlook continues the government's commitment to keep the overall growth in spending better aligned with revenue growth. Over the medium term, total expense will rise from \$87.1 billion in 2006-07 to \$92.5 billion in 2008-09 — an increase of \$5.4 billion. Annual growth in total expense is expected to average 3.0 per cent over this period, which is less than the 4.7 per cent average annual revenue growth forecast over the medium term.

Total revenue is forecast to increase by \$1.8 billion or 2.1 per cent in 2006-07. In 2008-09, total revenue is projected to be \$94 billion, an increase of \$8.2 billion over the 2006-07 forecast of \$85.7 billion, representing annual growth averaging 4.7 per cent.

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

	Interim 2005-06	Plan 2006-07	Outlook	
			2007-08	2008-09
Total Revenue	83.9	85.7	90.3	94.0
Expense				
Programs				
Health Sector	33.5	35.4	37.3	38.8
Education Sector ¹	11.5	12.0	12.6	12.7
Postsecondary Education and Training Sector	4.7	5.2	5.9	6.0
Children's and Social Services Sector	10.1	10.3	10.5	10.6
Justice Sector	3.1	3.2	3.2	3.2
Other Programs	13.3	11.5	11.1	11.3
Total Programs	76.2	77.7	80.6	82.6
Interest on Debt	9.1	9.4	9.7	9.9
Total Expense	85.3	87.1	90.3	92.5
Surplus/(Deficit) Before Reserve	(1.4)	(1.4)	0.0	1.5
Reserve	-	1.0	1.5	1.5
Surplus/(Deficit)	(1.4)	(2.4)	(1.5)	0.0

¹ Education sector includes Teachers' Pension Plan (TPP). Excluding TPP, total Education sector expense is projected at \$11.2 billion in 2005-06, \$11.6 billion in 2006-07, \$12.1 billion in 2007-08, and \$12.4 billion in 2008-09.

Note: Numbers may not add due to rounding.

Starting with this Budget, the government is expanding the scope of the Province's financial reporting to include the financial results of three important public-sector partners: Ontario's 155 hospitals (including three specialty psychiatric hospitals), 104 school boards and authorities, and 24 colleges of applied arts and technology. This adjustment is consistent with revised government accounting standards issued by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants and is fully supported by the Auditor General of Ontario. This expanded information will also be introduced to the Province's Public Accounts when they are published later this year.

"... 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

In 2005-06, this adjustment has a net negative impact on the Province's expenses of \$32 million. In 2006-07, it is projected to have a net positive impact on the Province's expenses of \$104 million.

Implementing this change in the 2006 Budget will make it easier to compare the 2005-06 interim fiscal outlook with the upcoming 2005-06 Public Accounts. By implementing this adjustment in the 2006 Budget, the government has advanced its commitment by one full year.

Need for Greater Certainty in Federal Transfers

The new federal government has expressed a willingness to address the fiscal imbalance between itself and the provinces and territories. The McGuinty government is optimistic about the potential positive outcome for Ontarians.

The Province needs the federal government to help build a strong Ontario in a strong Canada by continuing to narrow the \$23 billion gap between what Ontarians contribute to Confederation and the transfers and services that Ontarians receive in return.

The unreliability of federal-provincial agreements also diminishes the Province's ability to make particular investments. In 2006-07, the lapse in one-time health care federal transfers will mean that federal support for health care in Ontario will decrease by \$74 million compared to 2005-06.

Starting in 2007-08, another important program — the Canada-Ontario Early Learning and Child Care Agreement signed in November 2005 — will be affected. Under its terms, Ontario would have received \$1.9 billion over five years to support Best Start, Ontario's early learning and child care program for children under age six. Given the federal government's recent notice of the termination of this agreement, Ontario is no longer able to count on \$1.4 billion in funding intended for child care spaces and fee subsidies for working families between 2007-08 and 2009-10, and, consequently, this amount has been excluded from the revenue forecast outlined in this Budget.

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