BALANCING THE BUDGET

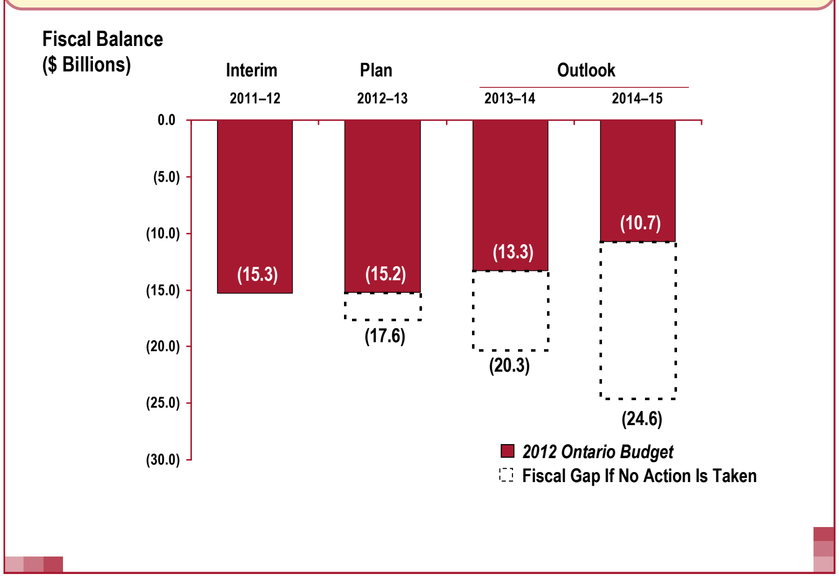
March 27, 2012

The 2012 Budget includes strong action to balance the budget and protect gains made in education and health care. A balanced budget will make the economy stronger and better able to create jobs.

In February 2012, both the Conference Board of Canada and the Commission on the Reform of Ontario's Public Services released projections suggesting that, if no action was taken to control growth in provincial expense, Ontario's deficit would continue to grow. The Conference Board report estimated that Ontario's deficit could be $16 billion, while the Commission suggested it could be as high as $30 billion by 2017–18 if no action was taken to control spending.

The government used a similar "what-if" analysis and estimated that a fiscal gap of $13.9 billion would arise in 2014–15 against the government's deficit target unless it takes strong action to manage growth in spending. Without the revenue and expense measures announced in this Budget, Ontario's deficit would approach $25 billion in 2014–15.

Fiscal Gap If No Action Is Taken



Regardless of the difference in projections, it is clear that Ontario is facing a serious deficit problem. The status quo is not an option:

- The annual cost of servicing Ontario's debt is approximately $10 billion, the third-largest expense behind health care and education
- As interest rates rise, so will those payments, taking precious resources away from education and health care. For every one per cent increase in interest rates, the cost to service the debt increases by $467 million, in the first year.

The McGuinty government's five-year plan will result in a balanced budget by 2017–18. This Budget is the next step in that plan and proposes to reduce program spending by $17.7 billion over the next three years while increasing revenues by $4.4 billion without raising taxes. That means the accumulated deficit will be $22.1 billion lower in 2014–15 than if no action were taken.

The government will continue to make the right choices and build on its plan to have the world's best-educated workforce to ensure future prosperity in the knowledge-based economy by:

- Fully implementing full-day kindergarten by September 2014
- Keeping a cap on class sizes in the early grades
- Remaining committed to the 30% Off Ontario Tuition grant for eligible full-time undergraduate university and college students
- Integrating training programs across government to make them more responsive to today's job market.

Measures to Help Balance the Budget

The Ministry of Health and Long-Term Care is moving forward with a plan to transform the health care system that will help manage expenditure growth at an average of 2.1 per cent a year, over the next three years, by:

- Integrating primary care into the Local Health Integration Networks (LHINs)
- Accelerating the use of evidence-based care
- Shifting resources into home care
- Adopting a more patient-centred funding model
- Moving routine procedures into specialized not-for-profit clinics
- Keeping Ontarians healthy by reducing childhood obesity and combating smoking.

The government's plan to balance the budget includes a broad range of measures:

- Extending the pay freeze for MPPs for another two years — for a total of five years
- Proposing to cap the Ontario Clean Energy Benefit at 3,000 kWh per month, which would allow virtually every family in Ontario to continue receiving the 10 per cent benefit on electricity and create more than $500 million in savings
- Changing the Ontario Drug Benefit program so that about five per cent of Ontario seniors — those with the highest incomes — pay more of their prescription drug costs
- Delaying and cancelling infrastructure projects to reduce borrowing by more than $3 billion.

The government is also moving forward with the transformation of public services — to change the way they are delivered to give Ontario families better value for money while protecting results. Examples include:

- Reviewing business support programs to create the Jobs and Prosperity Fund, for overall savings of $250 million in 2014–15. In that year, business and training supports will total an investment of more than $2.5 billion per year in our workers, job creation, increased productivity and the economy
- Closing underutilized jails in Chatham and Brantford, as well as the full closure of the Toronto West Detention Centre, saving more than $23 million in 2013–14 and $28 million in 2014–15
- Divesting commercially viable assets of the Ontario Northland Transportation Commission, resulting in annual savings and avoiding costs of approximately $250 million over three years
- Using office space more efficiently to reduce the government's real estate footprint by about one million square feet
- Proposing amendments to legislation that would, if passed, enable the government to pursue a public–private partnership for ServiceOntario to improve service while lowering costs.

The government's strong action also includes proposed new revenue measures:

- Freezing the general Corporate Income Tax rate at 11.5 per cent
- Freezing Business Education Tax rate reductions
- Modernizing the Ontario Lottery and Gaming Corporation
- Optimizing the revenue potential of the Liquor Control Board of Ontario
- Enhancing revenue integrity and increasing tobacco tax enforcement
- Increasing fees to move closer to full-cost recovery.

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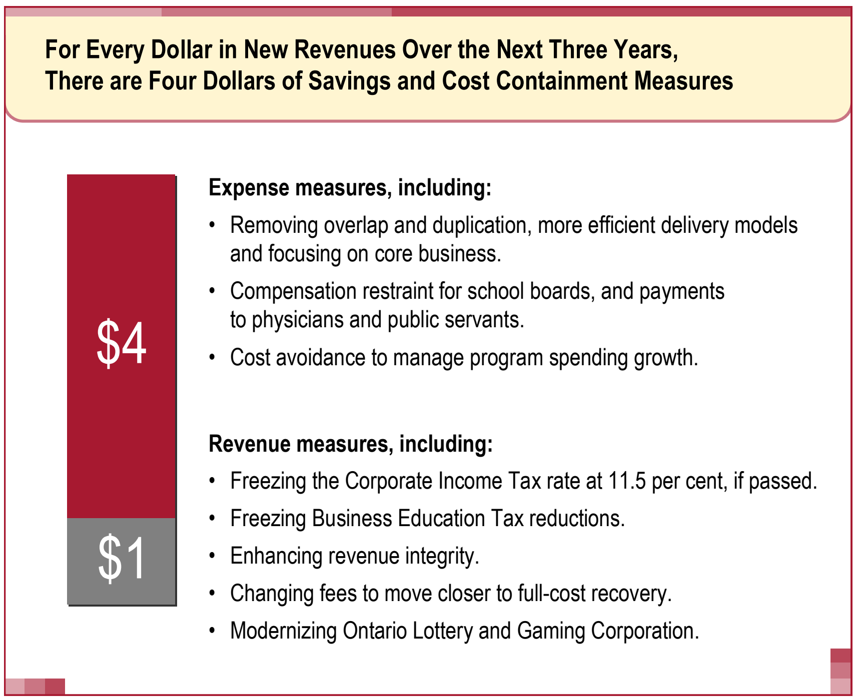
Managing Growth in Expenses

For every dollar in new revenues outlined in the 2012 Budget, there are four dollars of savings and cost containment measures. This means that program spending will be reduced by $17.7 billion over the next three years compared to what it would have otherwise been:

- $4.9 billion in planned savings from removing overlap and duplication, implementing more efficient delivery models and focusing on core business
- $6 billion in government actions to restrain compensation for school boards, payments to physicians and public servants
- $6.8 billion to contain costs across the broader public sector.

Annual average growth in program spending will be held to 1.0 per cent between 2011–12 and 2014–15.



Impact of Fiscal Actions
($ Billions)

	2012–13	2013–14	2014–15	3-year impact
Expense Measures				
Expense management measures[1]	(1.0)	(1.7)	(2.2)	(4.9)
Compensation restraint[2]	(0.9)	(2.1)	(3.0)	(6.0)
Cost avoidance	(0.1)	(1.5)	(5.2)	(6.8)
Total Expense Measures	**(2.0)**	**(5.3)**	**(10.4)**	**(17.7)**
Revenue Measures				
Freeze the Corporate Income Tax rate at 11.5 per cent, if passed	0.1	0.5	0.8	1.5
Freeze Business Education Tax reductions	0.1	0.2	0.3	0.6
Modernize Ontario Lottery and Gaming Corporation	(0.1)	0.2	0.5	0.6
Optimize Liquor Control Board of Ontario revenue potential	–	–	0.1	0.1
Enhance revenue integrity and other measures	0.1	0.3	0.5	1.0
Fee changes to move closer to full cost recovery	0.1	0.2	0.4	0.6
Total Revenue Measures	**0.3**	**1.4**	**2.7**	**4.4**
Total Direct Impact of Fiscal Actions	**2.3**	**6.7**	**13.1**	**22.1**
Interest on Debt Expense Avoided	0.1	0.3	0.8	1.1
Ratio of Expense Measures to Revenue Measures				**4:1**

[1] For more information, please see the Addendum: Report on Expense Management Measures.
[2] Includes compensation restraint for school boards, payments to physicians and public servants.
Note: Numbers may not add due to rounding.

The Five-Year Plan

Other key elements of the government's five-year plan to balance the budget include:

- Holding annual growth in program expense to an average of 0.9 per cent between 2010–11 and 2017–18 — in line with the recommendation of the Commission on the Reform of Ontario's Public Services
- Initiatives to transform the delivery of public services while ensuring Ontarians receive the best value for their tax dollars
- Ensuring the rate of growth in debt returns to a fiscally sustainable level
- Promoting principled and sustainable federal–provincial fiscal arrangements.

Ontario's Recovery Plan
($ Billions)

	Interim	Plan	Medium-Term Outlook		Extended Outlook		
	11–12	12–13	13–14	14–15	15–16	16–17	17–18
Revenue	**109.3**	**112.2**	**116.1**	**121.0**	**126.2**	**131.2**	**135.9**
Expense							
Programs	114.5	115.8	117.0	117.9	118.5	118.7	118.9
Interest on Debt	10.1	10.6	11.2	12.3	14.1	15.1	15.4
Total Expense	**124.6**	**126.4**	**128.2**	**130.3**	**132.6**	**133.8**	**134.4**
Reserve	–	1.0	1.2	1.5	1.5	1.5	1.5
Surplus/(Deficit)	**(15.3)**	**(15.2)**	**(13.3)**	**(10.7)**	**(7.8)**	**(4.2)**	**–**

Note: Numbers may not add due to rounding.

As the Ontario economy grows stronger, the government will transform public services so that the Province's finances are firmly on a path towards a balanced budget and long-term sustainability.

While a return to balanced budgets is a key fiscal objective, it is not an end in itself — it is a means to an end: ensuring that Ontario families will continue to receive the best value through the best education and health care in the world, and a strong economy that creates jobs. In fact, even before the budget achieves balance in 2017–18, the measures in this Budget will help support the Province in improving fiscal health and sustainability — which will provide a strong foundation for the longer-term sustainability of core services like education and health care.

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