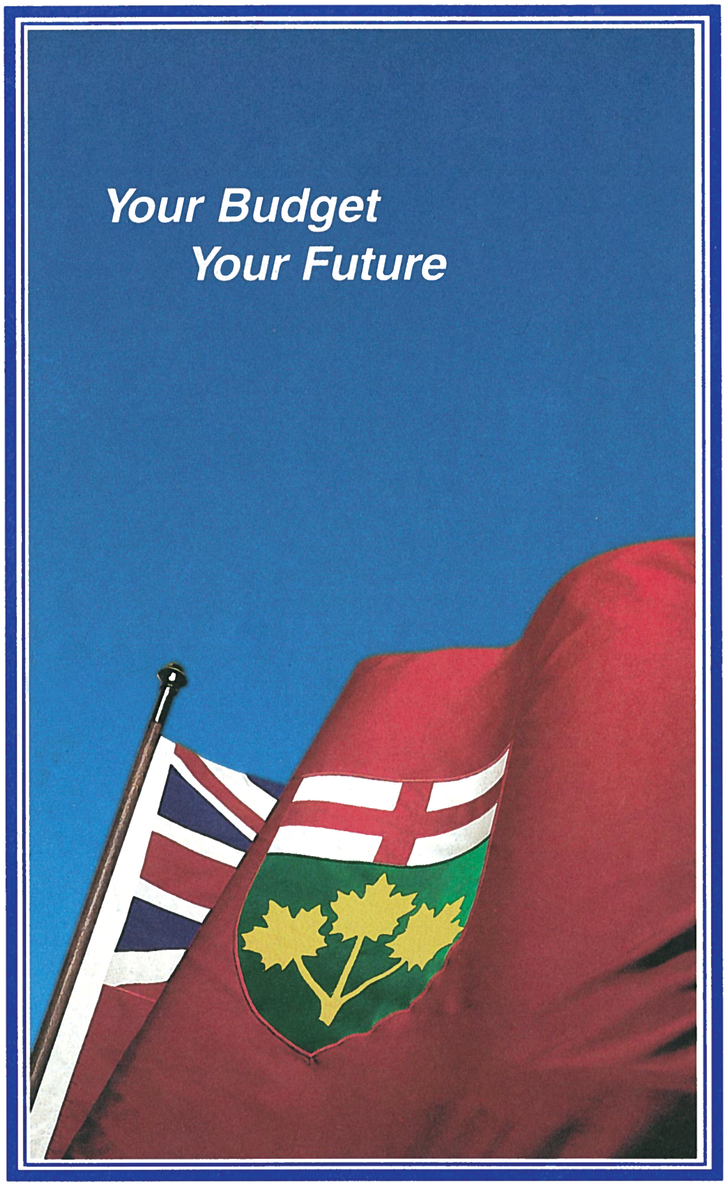
1996 Ontario Budget

Budget Papers



The Honourable Ernie Eves, Q.C.
Minister of Finance
Ontario

1996 Ontario Budget
Budget Papers

Presented to the
Members of the Legislative
Assembly of Ontario by
The Honourable Ernie Eves, Q.C.
Minister of Finance
May 7, 1996

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Your Ontario Tax Cut

BUDGET PAPER A:

YOUR ONTARIO TAX CUT

Introduction

The 1996 Ontario Budget cuts income taxes for all Ontarians.

- Ontario's income tax rate will be cut by 30.2 per cent over three years.
- The Ontario Tax Reduction for low-income taxpayers will be changed so that more low-income taxpayers will benefit from it. This means low-income taxpayers will see a tax cut that is greater than 30.2 per cent.
- A Fair Share Health Care Levy will be incorporated into the existing income tax surtax. This means higher-income taxpayers will see a tax cut, but it will be less than 30.2 per cent.

The income tax cut will be phased in.

The first step will take effect July 1, 1996. Ontarians will start to see the savings in their paycheques for the pay periods starting July 1.

The second step will take place on January 1, 1997. The tax cut will be fully in place in 1999.

The 1996 Ontario Budget also introduces an exemption from the Employer Health Tax on the first $400,000 of Ontario payroll costs. This measure will especially assist smaller employers.

Your Ontario Income Tax Cut

Ontario's income tax cut will make the tax system fairer.

- Every taxpayer will get a tax cut.
- Every taxpayer with less than $60,000 of income will get a tax cut of 30 per cent or greater.
- Taxpayers with low incomes will get the largest percentage tax cuts.
- The top 10 per cent of taxpayers will get an average tax cut of less than 30 per cent due to the Fair Share Health Care Levy.

Income Group ($)	Share of All Taxpayers (%)	Average Ontario Tax Cut When Fully Implemented (%)
Less than 14,900	10.0	41.4
14,900 - 19,175	10.0	33.7
19,175 - 23,530	10.0	32.3
23,530 - 28,000	10.0	31.8
28,000 - 32,500	10.0	31.4
32,500 - 37,700	10.0	30.9
37,700 - 44,050	10.0	30.5
44,050 - 53,200	10.0	30.4
53,200 - 67,300	10.0	30.3
67,300 - 69,250	1.0	29.6
69,250 - 71,750	1.0	29.3
71,750 - 74,600	1.0	28.4
74,600 - 78,500	1.0	27.5
78,500 - 83,700	1.0	26.6
83,700 - 90,750	1.0	25.6
90,750 - 102,500	1.0	24.6
102,500 - 123,000	1.0	23.2
123,000 - 172,500	1.0	21.7
172,500 - 247,500	0.5	19.6
247,500+	0.5	17.9
Total/Average	100.0	31.8

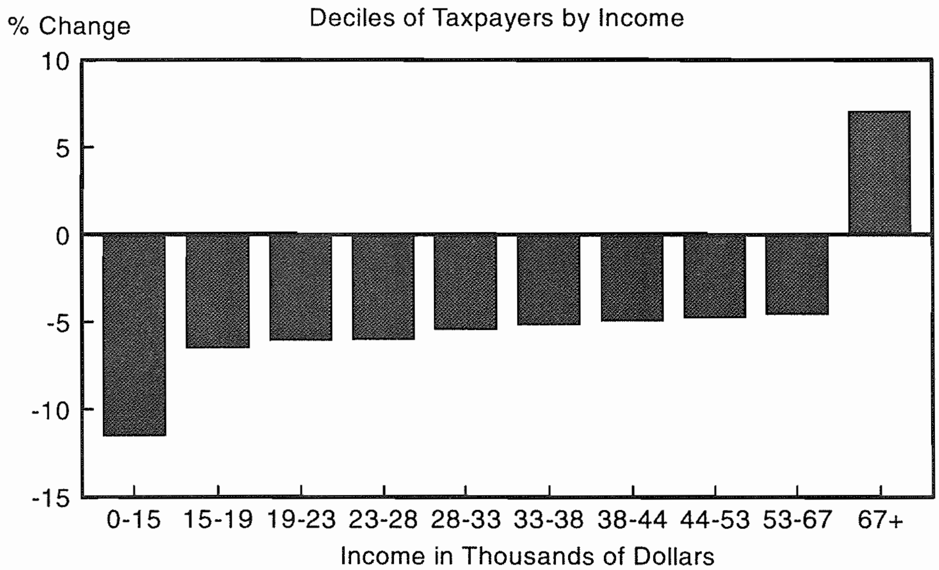
Includes impact of income tax rate cut, Ontario Tax Reduction adjustment, and Fair Share Health Care Levy.

A More Progressive Tax System

Ontario's income tax cut, combined with the Ontario Tax Reduction and the Fair Share Health Care Levy, will make the tax system more progressive.

- When the tax cut is fully implemented, the top 10 per cent of Ontario taxpayers--those with individual incomes above $67,300--will pay 45.0 per cent of Ontario's personal income tax revenues. Without these changes in Ontario's income taxes, they would pay 42.2 per cent of Ontario personal income tax revenues. In other words, their share of the total Ontario personal income tax burden will go up by 6.6 per cent. (45.0 is 6.6 per cent more than 42.2.)
- When the tax cut is fully implemented, the top 1 per cent of Ontario taxpayers--those with individual incomes above $172,500--will pay 18.4 per cent of Ontario's personal income tax revenues. Without these changes in Ontario's income taxes, they would pay 16.4 per cent of Ontario personal income tax revenues. In other words, their share of the total Ontario personal income tax burden will go up by 12.2 per cent. (18.4 is 12.2 per cent more than 16.4.)
- When the tax cut is fully implemented, the 20 per cent of Ontario taxpayers with the lowest incomes--those with individual incomes below $19,175--will pay 2.9 per cent of Ontario's personal income tax revenues. Without these changes in Ontario's income taxes, they would pay 3.1 per cent of Ontario's personal income tax revenues. In other words, their share of the total Ontario personal income tax burden will go down by 6.5 per cent. (2.9 is 6.5 per cent less than 3.1.)

Percentage Change in Share of Total Income Tax Revenues, 1999



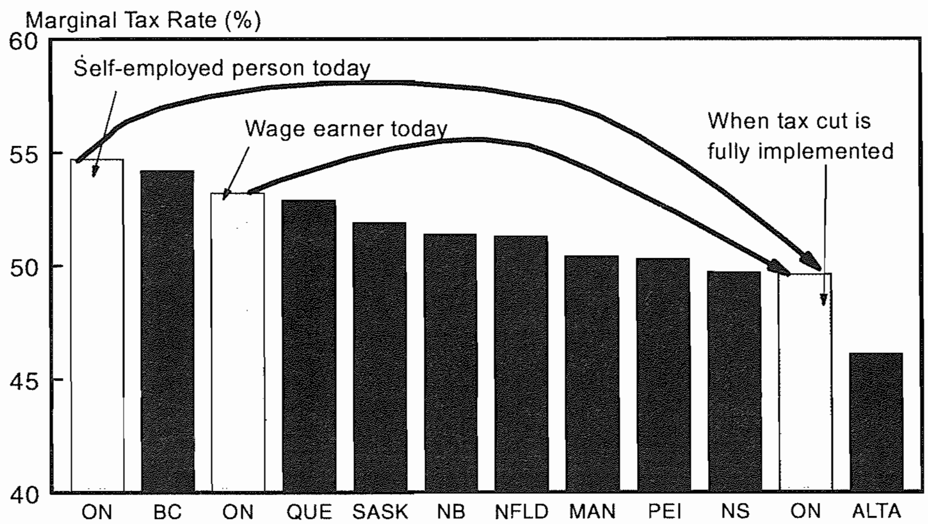
Each Bar Represents 10% of Ontario Taxpayers

2nd Lowest Top Marginal Personal Income Tax Rate in 1999

Changes to Ontario's income tax will make Ontario's top tax rate more competitive with those of other provinces. That means that more entrepreneurs and more people with specialized skills will choose to locate in Ontario.

- Currently, the top marginal tax rate is highest for entrepreneurs, because of the application of the Employer Health Tax on self-employment income, which is being phased out. No other province imposes such a tax.
- When the tax cut is fully implemented, Ontario's top marginal tax rate will be second lowest among the provinces, including entrepreneurs.

Top Marginal Personal Income Tax Rates



Combined federal and provincial personal income taxes.
Other provinces' rates reflect commitments up to April 30, 1996.

Cutting the Employer Health Tax

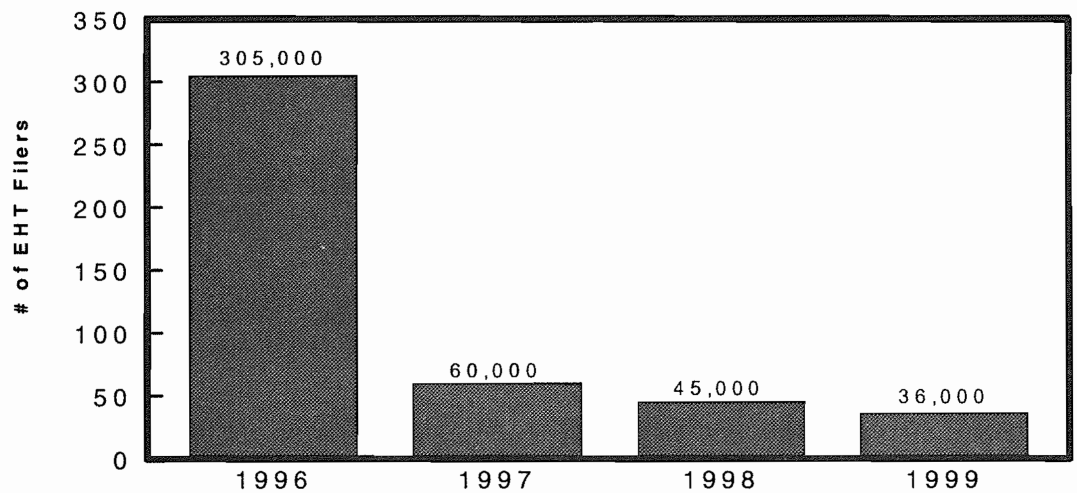
Beginning in 1999, the first $400,000 of an employer's Ontario payroll will be exempt from this tax. The exemption will be phased in over three years, as follows:

- For 1997, the first $200,000 of payroll will be exempt from tax.
- For 1998, the first $300,000 of payroll will be exempt from tax.
- For 1999 and later years, the first $400,000 of payroll will be exempt from tax.

This exemption will help small businesses create jobs. It will reduce the marginal ongoing payroll tax cost of hiring one new employee by as much as four per cent for a small business.

This exemption will also significantly reduce the paperwork burden on small employers. By 1999, 270,000 or 88 per cent of private-sector employers will no longer have to file a payroll tax return.

Private-Sector Employers Required to Pay the Employer Health Tax



DETAILS OF CHANGES TO THE INCOME TAX ACT AND THE EMPLOYER HEALTH TAX ACT

The following sections provide further information on the personal income tax cut and the employer health tax cut. For precise information, the reader is advised to consult the amending legislation.

Income Tax Act

Tax Rate Reduction

- For the 1996 taxation year, the Ontario income tax rate will be reduced to 56 per cent of Basic Federal Tax from 58 per cent of Basic Federal Tax.
  - From July 1, 1996 to December 31, 1996, tax will be withheld at source at the rate of 54 per cent of Basic Federal Tax.
- Effective January 1, 1997, the Ontario income tax rate will fall to 49 per cent of Basic Federal Tax.
- When the tax cut is fully phased in, the Ontario income tax rate will be 40.5 per cent of Basic Federal Tax.

Fair Share Health Care Levy

- The Fair Share Health Care Levy (FSHCL) will be incorporated into the existing surtax on Ontario income tax. The entire surtax will be the FSHCL.
- For the 1996 taxation year, the FSHCL will equal 20 per cent of Ontario income tax in excess of $5,310 plus 13 per cent of Ontario income tax in excess of $7,635.
  - From July 1, 1996 to December 31, 1996, the FSHCL will be calculated as 20 per cent of Ontario income tax in excess of $5,120 plus 16 per cent of Ontario income tax in excess of $7,270 for purposes of tax withholdings at source.
- Effective January 1, 1997, the FSHCL will equal 20 per cent of Ontario income tax in excess of $4,650 plus 24 per cent of Ontario income tax in excess of $6,360.
- When fully phased in, the FSHCL will equal 20 per cent of Ontario income tax in excess of $3,845 plus 36 per cent of Ontario income tax in excess of $4,800.

Ontario Tax Reduction

- Concurrent with the phase in of the income tax rate cut and the introduction of the Fair Share Health Care Levy, the Ontario Tax Reduction program is being changed to benefit more lower-income taxpayers.
- For the 1996 taxation year, the basic reduction will be $198 and the amount in respect of each dependent child age 18 or under and each disabled dependant will be $382.
  - From July 1, 1996 to December 31, 1996, the basic reduction will be $191 and the amount in respect of each dependent child age 18 or under and each disabled dependant will be $369 for purposes of tax withholdings at source.

- Effective January 1, 1997:
  - Reflecting the fall in the income tax rate to 49 per cent the basic reduction will be $174 and the amount in respect of each dependent child age 18 or under and each disabled dependant will be $335; and
  - The formula for calculating the tax reduction will be set at twice the individual's personal amount (i.e., the sum of the basic reduction and the amounts claimed in respect of eligible children and disabled dependants) minus Ontario income tax.
- When the adjustments are fully implemented the basic reduction will be $145 and the amount in respect of each dependent child age 18 or under and each disabled dependant will be $280.

Concordance with the Income Tax Act (Canada)

- The Income Tax Act will be amended to conform with changes to the Income Tax Act (Canada).
- Other minor administrative adjustments will also be introduced.

All enquiries regarding personal income tax changes should be directed to:
Taxation Policy Branch
Ministry of Finance
5th Floor, Frost Building South
7 Queen's Park Crescent East
Toronto, Ontario
M7A 1Y7
English: 1-888-562-4769 (or 1-888-JOB-GROW)
French: 1-888-562-4769 (or 1-888-JOB-GROW)
Teletypewriter (TTY): 1-800-263-7776

Employer Health Tax Act

Employer Health Tax Exemption

- Beginning January 1, 1999, employers will be exempt from tax on the first $400,000 of Ontario payroll. The exemption will be phased in over three years as follows:
  - For 1997, the first $200,000 of payroll will be exempt from tax;
  - For 1998, the first $300,000 of payroll will be exempt from tax;
  - For 1999 and subsequent years, the first $400,000 of payroll will be exempt from tax.

Tax Rate

- The tax rate applicable to the payroll for the year will be the tax rate that would otherwise apply before deducting the exemption for the year.

Tax Instalments

- An employer will not be required to remit tax instalments until the cumulative payroll for the year exceeds the employer's exempt amount for the year.
- Once the exempt amount has been reached, the determination of whether tax instalments must be remitted monthly or quarterly will continue to be based on the employer's total payroll for the year.
- The amount of the tax instalment payable will continue to be based on the payroll in the previous month or quarter, as applicable.

Associated Employers

- The exemption amount for the year must be shared among associated employers.
- All employers in an associated group must enter into an agreement allocating the exemption for the year. The agreement must be filed by March 15 of the following year with the annual return.
- If an associated employer does not enter into the allocation agreement for the year, all of the employers in that associated group will be denied the exemption for that year.

Part-Year Employers

- Where an employer opens or closes a business during the year, the exemption will be prorated by the number of days in the calendar year that the business is in operation.

Exclusions

- Employers currently excluded from the one-year tax holiday on increases in payroll will not be eligible for the exemption. These employers include:
  - Public sector employers, including federal, provincial and municipal governments, universities, colleges, school boards and hospitals; and
  - Certain persons exempt from income tax under subsection 149(1) of the Income Tax Act (Canada), such as municipal and provincial corporations and trusts.

Tax Holiday

- Effective for 1997 and subsequent years, the one-year tax holiday on increases in payroll will be eliminated.

Self-Employed Individuals

- Self-employed individuals currently pay Employer Health Tax on net self-employment income in excess of $40,000. The tax rate ranges from .98 per cent on net self-employment income under $200,000 to 1.95 per cent on net self-employment income over $400,000, before deducting the $40,000 exemption. A tax credit equal to 22 per cent of the tax payable is provided to compensate for the non-deductibility of the tax for income tax purposes.
- Effective for 1999 and subsequent years, the Employer Health Tax on self-employment income will be eliminated.
- The existing $40,000 exemption will be increased to $200,000 for 1997 and to $300,000

for 1998 to conform with the exemption for employers.

- For 1997 and 1998, the tax rate on self-employment income in excess of the exemption will be 1.95 per cent.
- The 22 per cent tax credit provided to compensate for the non-deductibility of the self-employed health tax for income tax purposes will be maintained for 1997 and 1998.

Other Amendments

- Employers will be required to include in total Ontario remuneration certain amounts paid to or deemed to have been received by former employees:
  - Effective May 8, 1996, employers will be required to include in total Ontario remuneration the amount of bonuses and other lump-sum payments made in the year to former employees; and
  - Effective 1997, employers will be required to include in total Ontario remuneration the amount of stock options benefits received in the year by former employees in respect of shares of the employer or shares of a corporation with which the employer does not deal at arm's length.
- Effective May 8, 1996, trustees in bankruptcy will be required to notify the Ministry of Finance of their appointment within 10 days thereof, and the bankrupt employer will be required to file a pre-bankruptcy return for the year and any outstanding return for the previous year within 40 days of the date of bankruptcy.

All enquiries regarding employer health tax changes should be directed to:
Employer Health Tax Branch
Ministry of Finance
P. O. Box 627
33 King Street West
Oshawa, Ontario
L1H 8H5
English: 1-888-562-4769 (or 1-888-JOB-GROW)
French: 1-888-562-4769 (or 1-888-JOB-GROW)
Teletypewriter (TTY): 1-800-263-7776

DETAILS OF CHANGES TO OTHER STATUTES

The following sections provide further information on changes to labour sponsored investment funds, race tracks tax, retail sales tax, tobacco tax, land transfer tax and corporations tax. For precise information, the reader is advised to consult the amending legislation.

Labour Sponsored Venture Capital Corporations Act

Concordance with the Income Tax Act (Canada)

- The provisions relating to labour sponsored investment fund corporations (LSIFs) will be amended to harmonize with the proposed 1996 federal budget changes for labour sponsored venture capital corporations with respect to the following:
  - The tax credit will be reduced from 20 per cent to 15 per cent of the cost of LSIF shares acquired after May 6, 1996;
  - The maximum annual investment eligible for a tax credit will be reduced from $5,000 to $3,500 for shares acquired after May 6, 1996;
  - For shares acquired after May 6, 1996, the articles of Ontario registered LSIF corporations must be amended before 1997 to restrict the registration of share transfers and to increase the minimum holding period from five to eight years, including where individuals retire, reach age 65 or cease to be residents of Canada; and
  - An individual redeeming a share after May 6, 1996 may not claim an LSIF tax credit for the taxation year in which the redemption occurs and the following two taxation years, unless the tax credit in respect of the redeemed share is repaid.

Investment Requirements

- For capital raised prior to May 7, 1996, the following rules apply:
  - At least 70 per cent of the capital raised must be invested in eligible investments by the earlier of the former time limits or December 31, 1997;
  - No more than 51 per cent of the capital required to be invested may be invested in reporting issuers (as defined in the *Securities Act*) at the time of investment; and
  - At least 10 per cent of the capital required to be invested must be invested in small businesses (less than $5 million in assets and 50 employees).

- For capital raised after May 6, 1996, the following rules apply:
  - At least 50 per cent of the capital raised after May 6, 1996 and during the first 60 days of 1997 must be invested in eligible investments by December 31, 1997, and at least 70 per cent of the capital must be invested in eligible investments by December 31, 1998;
  - For calendar years after 1997, at least 50 per cent of the capital raised during the first 60 days of the year and after the first 60 days of the preceding year, must be invested in eligible investments by December 31 of the year and at least 70 per cent of the capital must be invested in eligible investments by December 31 of the following year;
  - No more than 15 per cent of the capital required to be invested in each period can be invested in reporting issuers (as defined in the *Securities Act*) at the time of investment; and
  - At least 10 per cent of the capital required to be invested in each period must be invested in small businesses (less than $5 million in assets and 50 employees).
- Failure to meet these investment requirements will result in the suspension of Ontario tax credit certificates being issued until the Minister is satisfied the LSIF is in compliance with the investment requirements.
- The new requirement for investment in small businesses will replace the existing requirement for LSIFs to invest in small businesses where investments are held in large businesses.

All enquiries regarding the labour sponsored venture capital corporation changes should be directed to:
Tax Credits and Grants Branch
Ministry of Finance
P. O. Box 624
33 King Street West
Oshawa, Ontario
L1H 8H8
English: 1-888-562-4769 (or 1-888-JOB-GROW)
French: 1-888-562-4769 (or 1-888-JOB-GROW)
Teletypewriter (TTY): 1-800-263-7776

Race Tracks Tax Act

Tax Rate

- Effective upon proclamation, the tax rate on all wagers is reduced to 0.5 per cent from 9 per cent on triactor bets and from 7 per cent on all other bets.

All enquiries regarding the race tracks tax changes should be directed to:
Retail Sales Tax Branch
Ministry of Finance
P. O. Box 623
33 King Street West
Oshawa, Ontario
L1H 8H7
English: 1-888-562-4769 (or 1-888-JOB-GROW)
French: 1-888-562-4769 (or 1-888-JOB-GROW)
Teletypewriter (TTY): 1-800-263-7776

Retail Sales Tax Act

1-800 and 1-888 Toll-Free Telephone Services

- 1-800 and 1-888 toll-free telephone services purchased by subscribers, other than residential subscribers, are exempt from retail sales tax effective July 1, 1996.

Temporary Rebate on Building Materials for Farmers

Persons engaged in the business of farming may apply for a retail sales tax rebate on building materials purchased between May 8, 1996 and March 31, 1997 and used to construct or modernize a qualifying building or structure.

Qualifying Buildings

- Qualifying buildings are buildings used exclusively for farm use, such as barns, greenhouses, silos or similar structures.

All enquiries regarding the retail sales tax changes should be directed to:
Retail Sales Tax Branch
Ministry of Finance
P. O. Box 623
33 King Street West
Oshawa, Ontario
L1H 8H7
English: 1-888-562-4769 (or 1-888-JOB-GROW)
French: 1-888-562-4769 (or 1-888-JOB-GROW)
Teletypewriter (TTY): 1-800-263-7776

Tobacco Tax Act

Change to Method of Calculating Tobacco Tax

Effective May 8, 1996, Ontario's tobacco tax will be calculated as a base tax plus a harmonized federal-provincial tax.

Calculation of Tax

The base tax is 24 per cent of the average retail price per pack of 25 cigarettes (net of RST, GST, Ontario tobacco tax and federal tobacco levies), converted to a per cigarette price, and rounded to the nearest one tenth of a cent. Until the average retail price and the resulting per cigarette base tax are regulated, the base tax rate will remain at 1.7 cents per cigarette, per tobacco stick and per gram or part gram of cut tobacco.

The harmonized federal-provincial tax is 100% of any future changes in federal excise tax and federal excise duty for cigarettes, all converted to a per cigarette basis and rounded to the nearest one tenth of a cent.

Application of Tax

The per cigarette tax as calculated above applies to each cigarette, tobacco stick, gram or part gram of cut tobacco purchased in Ontario.

To ensure consistency, wholesalers will receive written notification from the Motor Fuels and Tobacco Tax Branch of the Ministry of Finance whenever there is a change in Ontario's tobacco tax.

All enquiries regarding the tobacco tax changes should be directed to:
Motor Fuels and Tobacco Tax Branch
Ministry of Finance
P. O. Box 625
33 King Street West
Oshawa, Ontario
L1H 8H9
English: 1-888-562-4769 (or 1-888-JOB-GROW)
French: 1-888-562-4769 (or 1-888-JOB-GROW)
Teletypewriter (TTY): 1-800-263-7776

Land Transfer Tax Act

Refund on Purchases of Newly Constructed Homes by First-time Home Buyers

Effective for registered and unregistered conveyances that occur after May 7, 1996, first-time home buyers will be eligible to receive a refund of land transfer tax paid on the purchase of newly constructed homes. The refund will be available for agreements of purchase and sale executed on or before March 31, 1997 with registered and unregistered conveyances that occur on or before June 30, 1997.

Amount of Refund

- The refund will be the entire amount of tax paid or payable up to a maximum of $1,725.

First-Time Home Buyers

- A first-time home buyer is an individual, at least 18 years of age, who has never owned a home anywhere in the world and whose spouse has not owned a home anywhere in the world while he or she was a spouse of the individual.
- An additional requirement is that the newly constructed home be used as the principal residence by the first-time home buyer.

Newly Constructed Home

- A newly constructed home is one that qualifies for the Ontario New Home Warranties Plan and that is sold by a vendor as defined in the *Ontario New Home Warranties Plan Act*.

Electronic Registration of Deeds

- The Land Transfer Tax Act (LTTA) will be amended to facilitate electronic registration of deeds. Sections of the LTTA dealing with imposing, collecting and recording liability will be amended. This change is effective June 1, 1996.

All enquiries regarding the land transfer tax changes should be directed to:
Motor Fuels and Tobacco Tax Branch
Ministry of Finance
P. O. Box 625
33 King Street West
Oshawa, Ontario
L1H 8H9
English: 1-888-562-4769 (or 1-888-JOB-GROW)
French: 1-888-562-4769 (or 1-888-JOB-GROW)
Teletypewriter (TTY): 1-800-263-7776

Corporations Tax Act

Ontario Film and Television Tax Credit

To harmonize with federal changes to film tax incentives, Ontario will provide a refundable film and television tax credit for eligible Ontario-based productions. The credit will generally be at a rate of 15 per cent of qualifying labour expenditures incurred after June 30, 1996, with first-time productions eligible for a 30 per cent rate. Qualifying labour expenditures cannot exceed 48 per cent of the cost of the production.

Eligible Ontario Production

- An eligible Ontario production is a film or television production that is a "Canadian film or video production" for purposes of the federal Canadian film or video production tax credit in proposed section 125.4 of the *Income Tax Act* (Canada) and proposed *Regulations* thereto, provided that:

- the Ontario Minister of Citizenship, Culture and Recreation will be responsible for certifying an eligible production for Ontario purposes,
- the production must be allotted not less than eight points in accordance with the proposed federal *Regulations*,
- the individual who is the producer must be an Ontario producer,
- at least 75 per cent of all production costs must be Ontario costs,
- the following types of productions will also be excluded:
  - magazine format programming
  - variety shows
  - educational or instructional programming
  - programming not shown in prime time
  - service productions
  - productions where the initial broadcast is shown by a Canadian broadcaster that is associated with the qualifying production company,
- the production must be shown in Ontario by an Ontario-based theatrical film distributor or a Canadian broadcaster within two years, and
- all principal photography and post-production must occur in Ontario with the exception of treaty co-production where either principal photography or post-production must occur in Ontario and with the exception of documentary productions where principal photography may occur outside Ontario.

Qualifying Production Company

♦ A qualifying production company will be an Ontario-based corporation that meets the proposed definition of qualified corporation for purposes of the federal Canadian film or video production tax credit, except that the reference to "exempt from tax" will include a reference to exempt from taxation under the *Corporations Tax Act*.

Qualifying Labour Expenditures

♦ The computation of qualifying labour expenditures will harmonize with the federal method used in the definitions "qualified labour expenditure" and "labour expenditure" in proposed section 125.4 of the *Income Tax Act* (Canada), except that the expenditures will be restricted to salaries, wages and remuneration incurred after June 30, 1996 and payable to individuals in Ontario.

♦ Qualifying labour expenditures will not be reduced by the Canadian film or video production tax credit.

Tax Credit Calculation

♦ Except for first-time productions, the rate for the Ontario film and television tax credit will be 15 per cent of qualifying labour expenditures.

- For first-time productions, the Ontario film and television tax credit will be the greater of:

  (i) $15,000, or

  (ii) 30 per cent of the first $240,000 of qualifying labour expenditures plus 15 per cent of any qualifying labour expenditures in excess of that amount.

- The Ontario film and television tax credit otherwise available will be limited to:

  – a maximum per production of $1.5 million for an eligible television series production and $500,000 for all other eligible Ontario productions; and

  – a maximum of $2 million per corporation or associated group for all productions commenced in a year.

First-Time Productions

- A first-time production is:

  (i) a feature film,

  (ii) a documentary, or

  (iii) a stand-alone television production suitable for a minimum 30 minute time slot,

  where a producer has no more than one previous screen credit in a commercial production and has not participated as a producer in a production that previously earned an Ontario film and television tax credit.

Administration

- A certificate of eligibility must be obtained from the Ontario Film Development Corporation, by filing the necessary information after June 30, 1996.

- A corporation or associated group will not be issued certificates of eligibility exceeding $2 million in respect of all projects starting in a year for purposes of the Ontario film and television tax credit.

- The certificate(s) of eligibility must be filed with the corporation's provincial income tax return when the credit is claimed.

Refunds

- The credit will be applied against outstanding Ontario tax liabilities and any excess will be refundable, subject to the corporate minimum tax.

- The Ontario film and television tax credit is assignable.

Effective Dates

- This measure will be effective for qualifying expenditures incurred after June 30, 1996 in respect of productions where the principal photography commenced after May 7, 1996.

Temporary Capital Tax Surcharge on Banks

Effective May 8, 1996, Ontario will harmonize with the federal measure to impose a temporary surcharge on the capital tax of large banks.

- The surcharge will be levied at a rate of 10 per cent on the capital tax of a bank's taxable capital over $400 million, multiplied by the Ontario allocation.
- The surcharge will be in effect from May 8, 1996 until October 31, 1997. For taxation years that include May 8, 1996, the tax will be prorated on the basis of the number of days in the taxation year after May 7, 1996.
- A bank's capital tax liability, up to the cumulative amount of the surcharge, may be reduced by the Bank Small Business Investment Tax Credit.

Bank Small Business Investment Tax Credit

Effective for eligible investments after May 7, 1996, Ontario will provide a 10 per cent capital tax credit for banks that make eligible patient capital investments in Ontario small businesses. This credit may be applied to reduce a bank's capital tax liability, up to the total amount of the bank's additional temporary capital tax surcharge.

Eligible Investments

- Eligible investments in a taxation year are patient capital investments, which are issued in that taxation year to a bank or its specialized financing corporation by a qualifying small business.
  - Patient capital investments are certain investments subject to specified minimum holding requirements and restrictions on retraction.
- Investments issued to a bank's specialized financing corporation will qualify for the credit to the extent of the bank's investment in the specialized financing corporation.
- Generally, a qualifying small business is a corporation that:
  - carries on business through a permanent establishment in Ontario,
  - is a Canadian-controlled private corporation, the assets of which are used principally in an active business carried on primarily in Ontario, and
  - immediately prior to the time of the investment, neither the assets nor revenues of the corporation and all associated corporations exceed $5 million.

Restrictions on Conversions and Dispositions

- Subject to certain limitations, existing investments, other than existing patient capital investments, can be converted into eligible investments.
- Generally, where an existing investment is converted into an eligible investment in the year, the value of the eligible investment for purposes of the credit will be the fair market value of the existing investment immediately before conversion.
- Special rules will apply to the dispositions of existing patient capital investments and eligible investments. These rules will restrict the amount of credits otherwise available.

Tax Credit

- Where the assets and revenues of a qualifying small business and all associated corporations are less than $1 million, the tax credit will be calculated at the rate of 10 per cent of the value of the eligible investment.
- The credit will be phased-out on a proportionate basis as assets or revenues of the qualifying small business and all associated corporations increase from $1 million to $5 million.
- Tax credits can be claimed in the year they are earned or any subsequent year against a bank's capital tax liability. The maximum credit that can be claimed in any particular year is an amount up to the temporary surcharge paid in the year or a prior year, less any credits previously claimed. The maximum credits that can be claimed for all years will be the total amount of the temporary capital tax surcharge paid in 1996 and 1997.

Effective Date

- This measure will be effective for eligible investments made after May 7, 1996 and before January 1, 2000.

Co-operative Education Tax Credit

Effective September 1, 1996, Ontario will provide a refundable tax credit to Ontario corporations equal to 10 per cent of eligible expenditures incurred in providing qualifying co-op work placements for co-op students. The tax credit will be capped at $1,000 per student for each co-op work placement.

Qualifying Co-op Work Placement

- The placement must be a co-op work term that counts for credits towards completion of a post-secondary co-op education program offered by a provincially (Ontario) assisted post-secondary institution (a provincially assisted university, a College of Applied Arts and Technology, or an agricultural college).
- The definition of a co-op education program for purposes of this tax credit will be based on the Canadian Association for Co-operative Education's definition of co-operative education program.

Eligible Expenditures

- Eligible expenditures are salaries, wages, and other remuneration paid by the Ontario corporation to a student in respect of a qualifying co-op work placement and/or payments by the Ontario corporation to a university or college in respect of a qualifying co-op work placement.

Ontario Corporation

- An Ontario corporation will be a corporation that has a permanent establishment in Ontario, other than a corporation exempt from tax under the *Corporations Tax Act*.

Tax Credit

- Corporations will receive a refundable tax credit equal to 10 per cent of eligible expenditures in respect of a qualifying co-op work placement up to a maximum of $1,000 per student for each co-op work placement.
- The credit will be available to a corporation in the taxation year in which the qualifying co-op work placement ends.
- The credit will be applied against outstanding Ontario tax liabilities and any excess will be refundable, subject to the corporate minimum tax.

Administration

- The college or university must certify that the placement is a qualifying co-op work placement.

Effective Date

- The credit will apply to placements commencing after August 31, 1996.

Concordance with Federal Budget Changes

- The *Corporations Tax Act* will harmonize with federal *Income Tax Act* changes and effective dates announced in the 1995 and 1996 federal budgets that pertain to the determination of taxable income for corporations. These include:
  - resource allowance calculation;
  - accelerated depreciation for new and expanded mines;
  - deemed capital cost rules for certain expenditures;
  - flow-through share rules;
  - rules for scientific research and experimental development;
  - income tax treatment of life insurers;
  - elimination of accelerated capital cost allowance for Canadian certified productions;

- elimination of joint exploration corporations;
- rules in respect of specified energy properties and renewable energy expenditures;
- increased charitable donation limit; and
- donations of ecologically sensitive land.

All enquiries regarding the corporations tax changes should be directed to:
Corporations Tax Branch
Ministry of Finance
P. O. Box 622
33 King Street West
Oshawa, Ontario
L1H 8H7
English: 1-888-562-4769 (or 1-888-JOB-GROW)
French: 1-888-562-4769 (or 1-888-JOB-GROW)
Teletypewriter (TTY): 1-800-263-7776

Interest on Unpaid Taxes and Refunds: Harmonization with Revenue Canada

Ontario will harmonize with the base used by the federal government for the setting of interest rates with respect to taxes (Government of Canada treasury bill yields). This change will affect the rate charged on overpayments and underpayments of tax.

Ontario will increase the rate charged on unpaid tax and instalments under all statutes. The new rates will be in line with those charged by Revenue Canada.

To compensate for certain differences between provincial and federal statutes, such as the payment of interest on instalments and the treatment of refunds, the Ontario rates used for some overpayments may be less than the comparable federal rates.

Other penalty and interest provisions, such as the instalment interest offset and deficient instalment penalty under the *Income Tax Act* (Canada), will be adopted where appropriate.

The interest base and rate changes will be effective January 1, 1997. Other changes will be implemented by March 31, 1997 as computer systems are adjusted to accommodate them.

For enquiries with respect to this measure please call:

English: 1-888-562-4769 (or 1-888-JOB-GROW)
French: 1-888-562-4769 (or 1-888-JOB-GROW)
Teletypewriter (TTY): 1-800-263-7776

Technical Amendments

To improve administrative effectiveness and efficiency and maintain the integrity of the tax system various technical amendments will be made to the following acts:

- *Retail Sales Tax Act*
- *Tobacco Tax Act*
- *Land Transfer Tax Act*
- *Corporations Tax Act*
- *Mining Tax Act*

As well, changes will be made to the *Corporations Tax Act* to harmonize with amendments enacted in several federal technical bills.

Revenue Changes:
1996 Budget Impact Summary
($ million)

Table 1

	1996-97	Full Year
Personal Income Tax		
Rate Reduction	(1,175)	(4,815)*
Fair Share Health Care Levy	90	260*
Employer Health Tax		
Employer Health Tax Exemption	(60)	(260)*
Self-Employed Individuals	(5)	(30)*
Labour Sponsored Venture Capital Corporations		
Concordance with the Income Tax Act (Canada)	105	100
Race Tracks Tax		
Tax Rate Reduction	(65)	(85)
Retail Sales Tax		
1-800 and 1-888 Toll Free Telephone Services	(15)	(25)
Temporary Rebate on Building Materials for Farmers	(20)	(20)
Tobacco Tax		
Change to Method of Calculating Tobacco Tax	0	0
Land Transfer Tax		
Refund on Purchases of Newly Constructed Homes by First-Time Home Buyers	(30)	(40)
Corporations Tax		
Retargeted Film Incentive	0	(5)
Bank Surtax--Small Business Credit	10	0
Co-operative Education Tax Credit	(5)	(15)
Concordance with Federal Budget Changes	(1)	(5)
Total Revenue Changes	**(1,171)**	**(4,940)**

* Reflects full implementation

Ontario's Economy

Jobs and Growth

THE ONTARIO ECONOMY

Ontario Economy at a Glance
(Per Cent)

	1995	1996	1997	1998
Real GDP Growth	2.5	1.9	2.8	3.0
CPI Inflation	2.4	1.4	1.6	1.8
Job Growth	1.4	1.5	1.9	2.0

Source: Ontario Ministry of Finance projections

ONTARIO ECONOMY 1996-1998

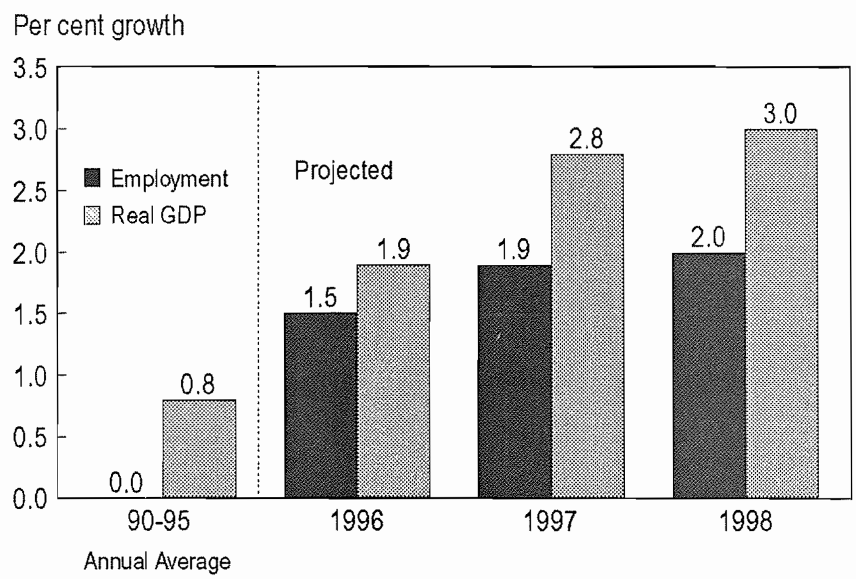
Highlights

Steady, solid growth projected

To ensure that the deficit and other fiscal targets set out in this Budget are realistic and achievable, prudent assumptions have been used to develop a cautious economic forecast. Ontario's real Gross Domestic Product (GDP) is projected to grow by 1.9 per cent in 1996, 2.8 per cent in 1997 and 3.0 per cent in 1998.

- Consumer spending will strengthen as income tax cuts boost consumer confidence and put money back into the pockets of the people of Ontario.
- Small business is expected to create the lion's share of new jobs, spurred by income tax cuts, the elimination of the Employer Health payroll tax on the first $400,000 of payroll, and a much improved business climate.
- The housing market is reviving with improved affordability and renewed confidence.
- Export-oriented sectors will continue to lead growth, reflecting Ontario's improved competitive position.
- Investment spending, particularly for machinery and equipment, will remain strong as firms reinvest profits to improve their global competitiveness.

Steady, Solid Growth



Sources: Statistics Canada and Ontario Ministry of Finance

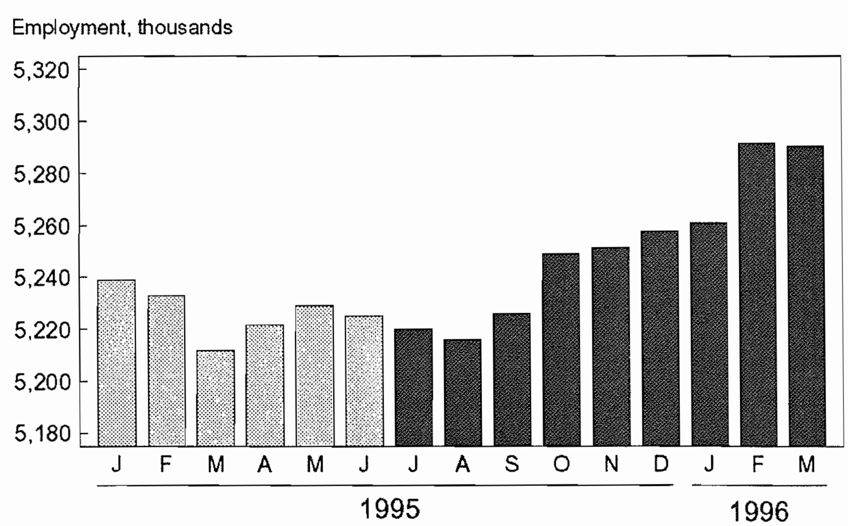
Private sector has created nearly four new jobs for every job lost in the public sector

More Growth and Jobs

Ontario's economy is beginning to reflect a renewed level of confidence. Ontario's economy rebounded sharply in the second half of 1995, with real GDP up 5.0 per cent in the third quarter, and 2.7 per cent in the fourth quarter of 1995. GDP growth in the second half of 1995 was more than three times the growth in Canada. Recent data show continued economic growth in Ontario in 1996.

- Between June 1995 and March 1996, the private sector created 90,000 jobs. In other words, the private sector has created nearly four new jobs for every job lost in the public sector.
- Ontario consumer confidence rose 3.1 per cent in the first quarter of 1996. Toronto-area home sales rose 70 per cent in March from last year's low level.
- Ontario's merchandise exports were up 3.8 per cent in January and February from a year ago, despite temporary auto plant closures for inventory correction. Machinery and equipment export sales accounted for most of the gain, increasing by 8.0 per cent.
- Canadian business confidence rose 1.7 per cent in the first quarter of 1996. According to the Conference Board business confidence survey, 53.9 per cent of Canadian businesses consider Ontario the best province in which to invest.

Job Creation Accelerating



Source: Statistics Canada.

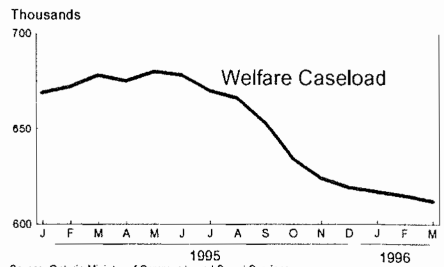
A Framework for Economic Growth

Cutting taxes, balancing the budget and making government more efficient and effective will restore consumer and business confidence and pave the way for further private-sector job creation.

Tax cuts create jobs and spur growth

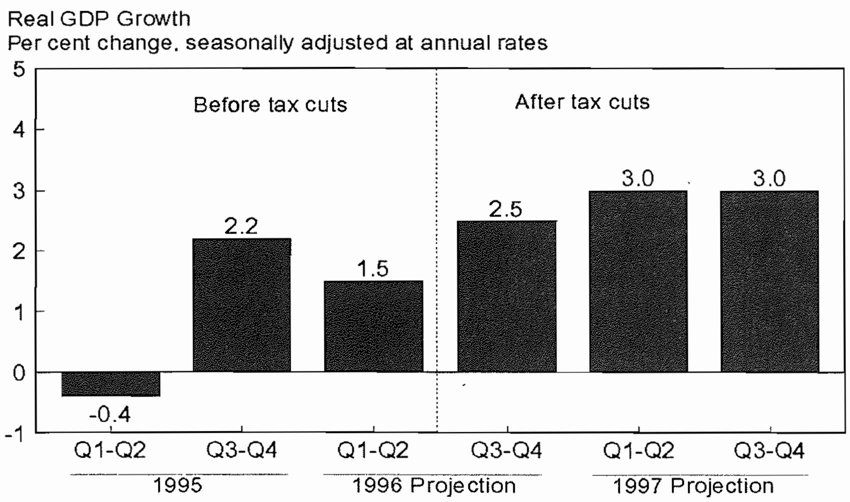
- Lower personal income taxes will encourage more investment and job creation, especially in Ontario's small business sector. A survey from the Canadian Federation of Independent Business found that the tax cut is key to increased hiring. When the tax cut is fully implemented, Ontario's top marginal personal income tax rate will be the second lowest in Canada. Budget Paper D discusses the link between tax cuts and job creation.
- Freezing the minimum wage, exempting the first $400,000 of payroll from the Employer Health payroll tax and reducing workers' compensation premiums will cut mandatory payroll costs and create jobs.
- Reform of the social assistance system is helping people break the cycle of dependency, leading to more jobs and higher levels of income. The number of people on social assistance declined by 129,700 between June 1995 and March 1996, or 9.6 per cent. The welfare caseload dropped by 9.8 per cent during this period.
- With 90,000 new jobs created in the private sector from June to March, Ontarians who had stopped looking for work are resuming their job search. As a result, the participation rate has risen 0.7 percentage points since September 1995.

Breaking the Cycle of Dependency



Source: Ontario Ministry of Community and Social Services

Tax Cuts Will Spur Economic Growth



Sources: Statistics Canada and Ontario Ministry of Finance

Interest Rates, Inflation and the Dollar

Declining government deficits and low inflation are leading to lower interest rates. Ontario's economy has contributed significantly to Canada's strong trade performance and this, coupled with low inflation, has allowed the dollar to strengthen.

Low interest rates reflect low inflation and declining government deficits

- During the spring, short-term interest rates fell below U.S. rates. This was the first time that Canadian rates have been below U.S. rates on a sustained basis in more than a decade. However, to be prudent, the economic forecast included in this Budget assumes average Canadian short-term rates will be above U.S. rates.
- As investors become more confident in Canada's ability to maintain low inflation and in the durability of Canada's dramatically improved fiscal position, long-term interest rates should fall. However, to reflect prudence, both short- and long-term interest rates are assumed to be significantly higher than expected by the average private-sector forecast through the remainder of 1996 and all of 1997.
- Inflation in Ontario is projected to remain low, falling from 2.4 per cent in 1995 to 1.4 per cent in 1996 and averaging 1.7 per cent over the 1997 to 1998 period.
- Continued improvement in Canada's current account balance combined with low inflation should support a stronger dollar over the medium term.

Cautious Interest Rate Assumptions
(per cent)

	1995a	1996	1997
3-month Canadian treasury bill rate			
Private-sector survey average	6.9	5.0	5.7
Ontario's prudent assumption	6.9	5.6	6.4
10-year government of Canada bond rate			
Private-sector survey average	8.1	7.6	7.7
Ontario's prudent assumption	8.1	8.2	8.6

a=actual
Sources: Bank of Canada, Ontario Ministry of Finance Survey of Financial Market Dealers April 30, and Ontario Ministry of Finance

Stronger Growth in Key Trading Partners

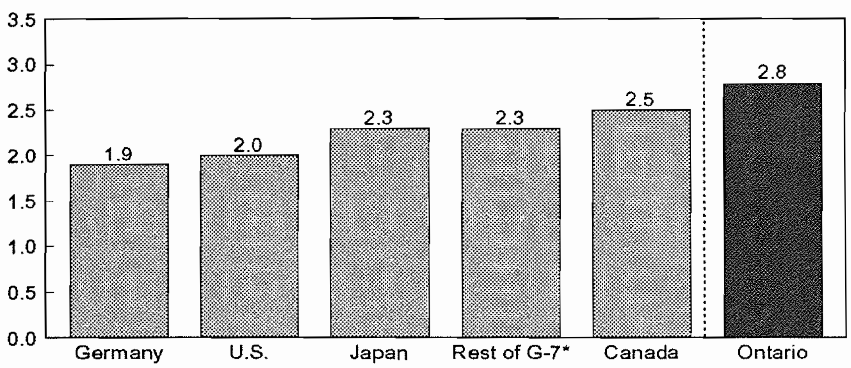
Continued economic growth in the United States and Ontario's strong competitive position support export growth. Ongoing growth in the rest of the G-7 will create a larger export market for Ontario goods and services.

- The United States is Ontario's most important export market, accounting for about 90 per cent of international exports. The average private-sector forecast for U.S. economic growth is 1.9 per cent in 1996, 2.1 per cent in 1997 and 1.9 per cent in 1998. Although the U.S. economy is currently near full capacity, this modest pace of growth is expected to keep inflationary pressures in check. This is consistent with the projection of moderate non-inflationary growth in Ontario.
- European growth is expected to pick up as recent lower interest rates boost domestic demand and business investment.
- The strong yen and continued economic restructuring, particularly in the financial industry, are expected to keep Japanese growth modest, with real GDP rising by an average 2.3 per cent over the 1996 to 1998 period.

Private sector forecasts renewed global growth

Private Sector Expects Ontario Economy to Outpace G-7 Countries

1996-98, Average annual per cent growth



* Britain, France and Italy
Sources: *Consensus Forecasts*, *Blue Chip Economic Indicators* and Ontario Ministry of Finance

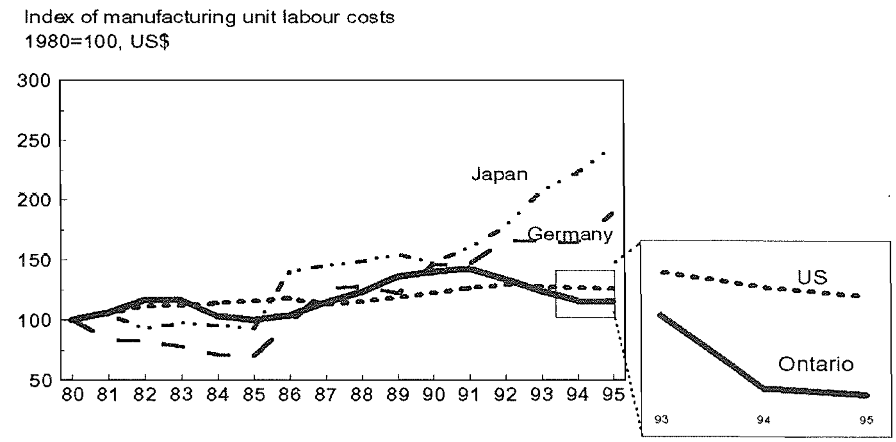
Exports Will Continue to Lead Growth

Ontario exports will continue to be a key source of growth over the next three years. Exports are expected to grow faster than overall GDP, supported by Ontario's highly productive manufacturing sector, modest growth in U.S. demand and a competitively priced Canadian dollar.

Autos and high-tech sector lead growth

- Ontario's strong competitive position reflects lower labour costs, strong capital investment and a competitive exchange rate. Since 1991, Ontario's unit labour costs, measured in U.S. dollars, have fallen 19.2 per cent, compared to a 0.6 per cent decline in the U.S. and increases of 28.8 per cent in Germany and 52.8 per cent in Japan.
- Although North American auto sales are projected to grow marginally over the next few years, North American assemblers will build more of the vehicles sold here. In addition, auto exports to the rest of the world should strengthen as North American-made cars displace high-priced European and Japanese models. Ontario auto exports are projected to surpass last year's record-breaking level.
- The value of Ontario's computer hardware and software exports has nearly doubled over the last three years and telecommunications exports have risen by nearly 60 per cent. Worldwide exports of high-technology business equipment will remain strong.

Ontario's Manufacturing Competitiveness Improves as Unit Labour Costs Decline



Sources: U.S. Bureau of Labor Statistics, Statistics Canada and Ontario Ministry of Finance

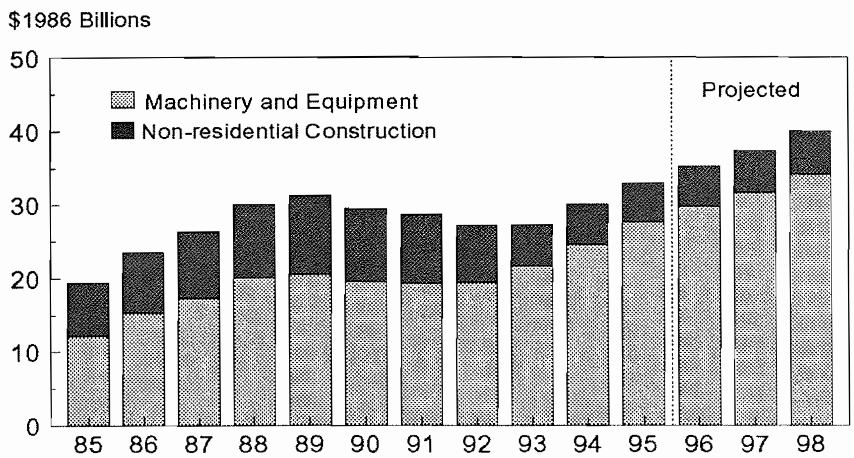
Strength in Business Investment

Total real business investment is expected to reach a record level of $35.4 billion in 1996, and rise by an average annual rate of 6.6 per cent over the 1996 to 1998 period. This is much stronger than the first half of the 1990s when declines in plant construction led to an average annual decline of 0.8 per cent in total business investment.

Investment gives business competitive advantage

- Investment in machinery and equipment is projected to rise by an average 7.3 per cent over the 1996 to 1998 period.
- Non-residential construction is projected to expand by an average 3.0 per cent per year over the 1996 to 1998 period, following six years of decline.
- According to Statistics Canada's investment intention survey, Ontario business investment in current dollars is expected to increase 3.7 per cent in 1996, compared to a 1.2 per cent decline for Canada as a whole.
- Ontario's investment is expected to be concentrated in the manufacturing and communications sectors, as growing firms invest in high-tech machinery and more modern industrial and commercial space. Major capital investments in mining and forest production are under way in Northern Ontario. (See map on the next page.)
- Strong profit growth will provide business with the cash flow necessary to finance their investments. Profits as a share of provincial income are projected to rise from 9.5 per cent in 1996 to 11.1 per cent in 1998. Excellent cost control, rising demand and Ontario's strong competitive position should support a sustained recovery in corporate profits.

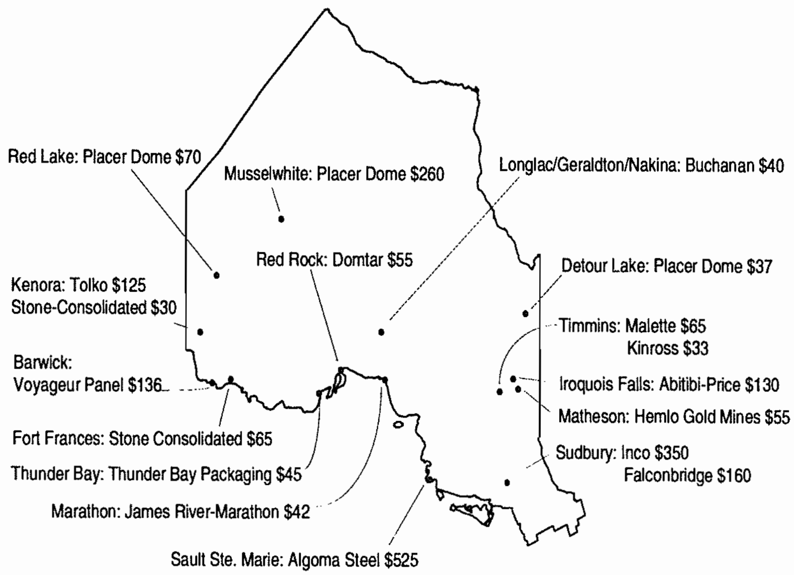
Strong Growth in Ontario Investment



Sources: Statistics Canada and Ontario Ministry of Finance.

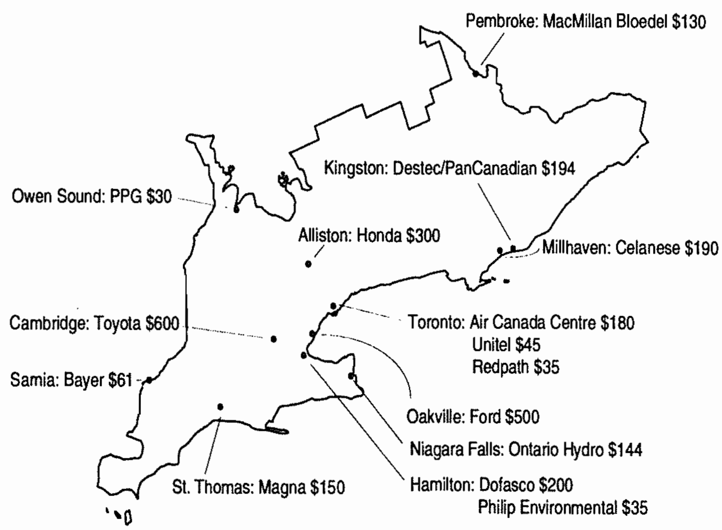
Over $2 billion in major capital projects in the North...

Major Capital Projects Under Way in Northern Ontario
($ millions)



... and nearly $3 billion in the South

Major Capital Projects Under Way in Southern Ontario
($ millions)



Small Business Sector

The small business sector is an important and dynamic sector of the economy. Businesses with fewer than 100 employees accounted for 96 per cent of the net job growth in the 1980s and for 31 per cent of the net job losses in the 1990 to 1993 period, the latest period for which data are available. Higher personal tax rates, the imposition of the Employer Health payroll tax and successive rounds of income tax hikes and minimum wage increases contributed to the poor performance in the early 1990s.

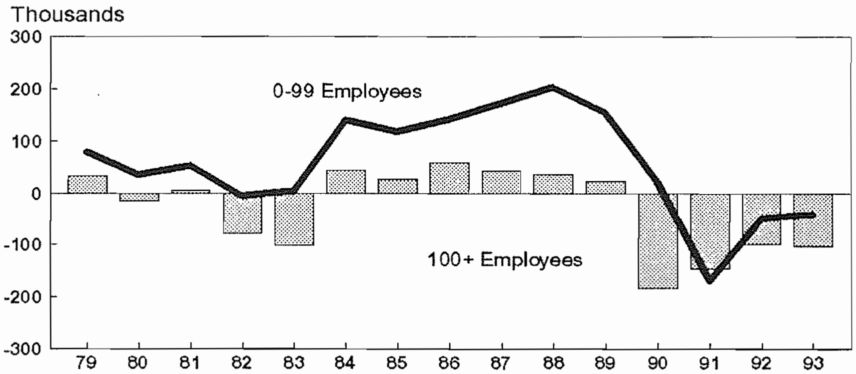
Small business leads job creation

Lower taxes are particularly crucial to small business. These businesses often depend on the reinvested earnings of their owners for capital.

- A recent survey conducted by the Canadian Federation of Independent Business revealed that 80,000 small enterprises are ready to increase hiring plans as a direct result of Ontario's tax cuts.
- Lower personal taxes will contribute both to increased investment in existing business and higher business formation rates. The prospect of keeping a larger share of earnings will increase willingness to innovate and take risks.
- Small business will also benefit from the reduction in payroll taxes. Eliminating the Employer Health payroll tax on the first $400,000 of payroll, freezing the minimum wage and reducing workers' compensation premiums will cut mandatory payroll costs.

Small Business Leads Job Creation

Ontario Net Job Creation by Firm Size



Note: The data cover the commercial sector only. This data source provides the best available breakdown of employment by firm size. Employment is based on a full-time equivalent measure that is calculated by dividing a firm's payroll by the average wage in its industry and employment size group. Self-employed people who are issued a T4 are included. Although the trends are similar, these numbers are not directly comparable to the Labour Force Survey, which counts full-time and part-time jobs equally (as one job) and all self-employed people.

Sources: Statistics Canada, Business and Labour Market Analysis Division, and Ontario Ministry of Finance

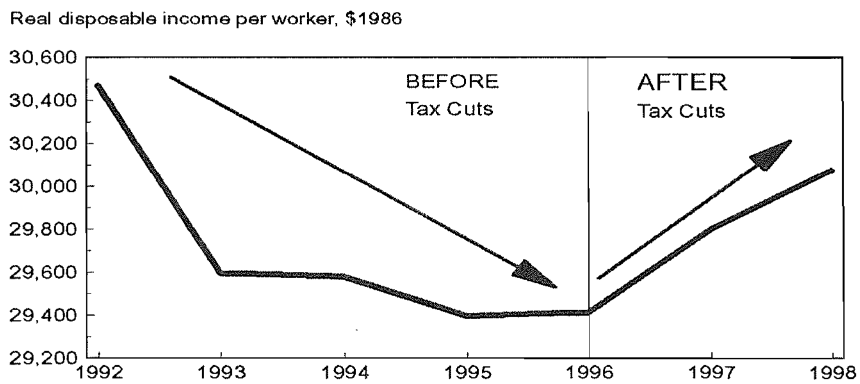
Consumer Spending Supported by Tax Cuts and Job Gains

Tax cuts and job gains key to improving confidence

Consumer spending is expected to revive with lower taxes, solid job gains and a rebound in consumer confidence.

- Real consumption is projected to rise by 1.2 per cent in 1996 and accelerate to an average 3.1 per cent in 1997 and 1998, about the same pace as real disposable income. A large portion of the rise in spending is directly attributable to the personal income tax cuts that boost disposable income.
- New jobs and wage gains will lead to stronger income growth. The improved economic climate has already generated a significant number of jobs. This trend is projected to continue, with employment rising by an average annual rate of 1.8 per cent over the 1996 to 1998 period. Average wages are projected to rise by an average 2.0 per cent per year, in line with the wage gain over the past three years.
- The savings rate is expected to average about 8.0 per cent over the 1996 to 1998 period, which means consumers will spend about 92 cents out of every after-tax dollar earned.
- Lower taxes and low interest rates will help people pay down their debts, further strengthening consumer confidence. Low interest rates reduce the monthly payments on consumer loans, easing the burden of high debt levels. According to the federal Department of Finance, the average interest rate on consumer debt in Canada fell to 10.6 per cent in the fourth quarter of 1995, down from a peak of 16.0 per cent in the third quarter of 1990.

Boost to Consumer Spending Through Tax Cuts and Job Gains



Sources: Statistics Canada and Ontario Ministry of Finance

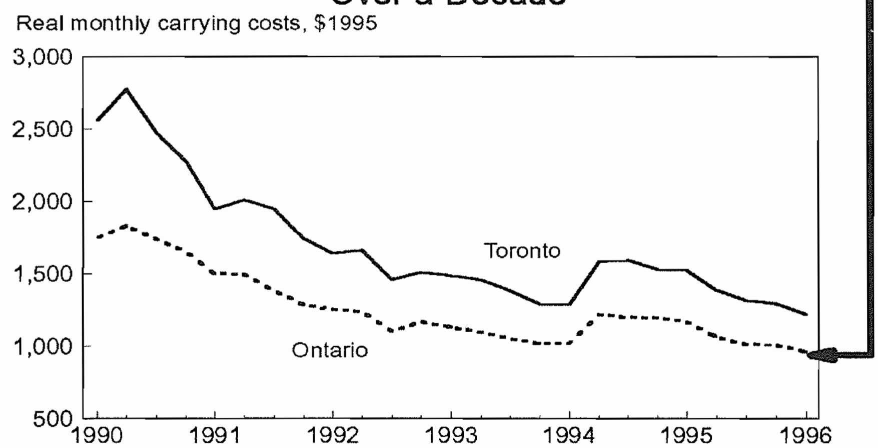
Housing Now More Affordable

Personal income tax cuts, improved affordability and solid job gains will help rebuild consumer confidence and encourage housing activity. These conditions will strengthen housing sales and starts over the next few years.

Housing starts below requirements over last five years

- There is significant pent-up demand for housing. Over the first half of the decade, housing starts averaged close to 50,000 per year, well below underlying demographic requirements.
- The Land Transfer Tax refund for new home purchases will help people buy their first home.
- According to Canada Mortgage and Housing Corporation, home ownership has never been more affordable with over 40 per cent of all renters able to afford a starter home — a new high.
- The drop in carrying costs reflects both lower interest rates and lower average home prices. Monthly carrying costs for an average home in Ontario in the first quarter of 1996 were $962 — the lowest in over a decade in real terms.

Lowest Mortgage Carrying Costs in Over a Decade



Sources: Canadian Real Estate Association, Toronto Real Estate Board, Bank of Canada and Ontario Ministry of Finance

Export sectors to lead growth

Domestic-oriented sectors continue recovery

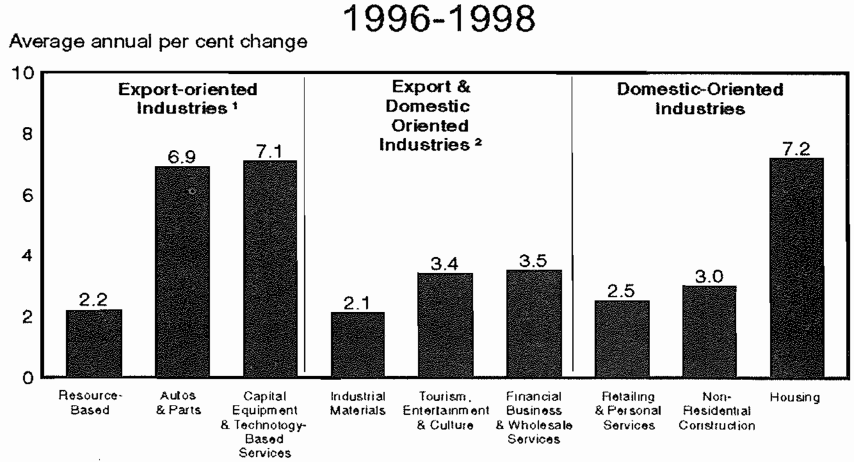
Broad-based Growth for the Private Sector

More balanced growth in demand throughout the economy is leading to sustained growth across a wide range of industrial sectors. Export-oriented sectors such as autos and capital equipment are continuing to gain market share in the United States. As a result, jobs will be created in manufacturing at a faster rate than in other sectors of the economy.

Production in sectors relying on both export and domestic markets, such as financial and business services, are growing steadily and constitute an important source of jobs. These service industries are also major exporters to other provinces and will benefit from their growth.

With higher consumer confidence, in part due to the income tax cut, sectors driven primarily by household spending – housing, retailing, leisure, entertainment and culture – are recovering. These household-related sectors are also returning as important sources of job creation.

Sectoral Real Output Growth
1996-1998



1 Export well over 50 per cent of their output internationally. Resource-based industries include mining and forest products but exclude agriculture because it depends largely on domestic demand.
2 Rely mainly on domestic demand although some also export to other provinces and countries.
Sources: Statistics Canada and Ontario Ministry of Finance.

CONCLUSION

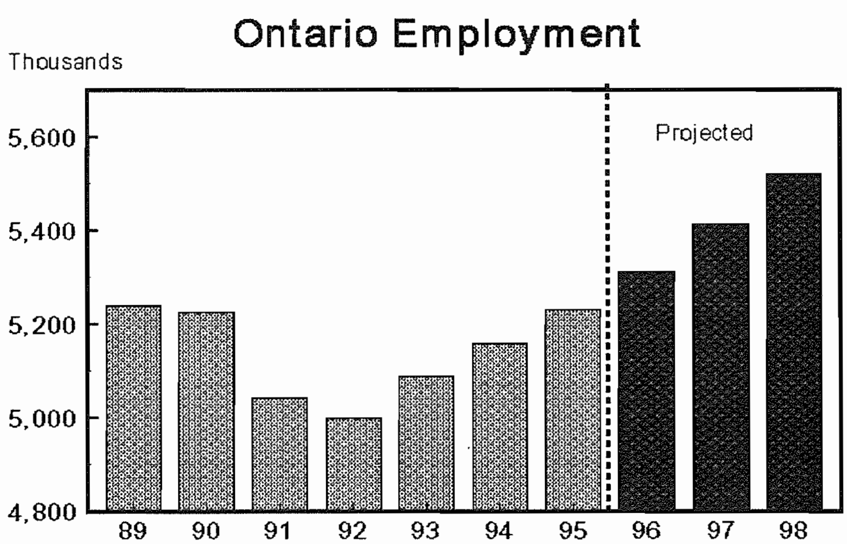
Positive Job Creation Outlook

Ontario's economy can create more jobs

Steady economic growth will lead to solid job creation. Cutting income and payroll taxes, freezing the minimum wage, and cutting red tape are all measures designed to encourage initiative and job creation. Employment is projected to grow 1.5 per cent in 1996 and an average 1.9 per cent over 1997 and 1998.

- Ontario's economy is already seeing results: from June 1995 to March 1996 the Ontario economy has created 90,000 net new private-sector jobs.
- Industries providing good jobs at above-average wages will continue to lead job growth. For example, manufacturing and business services, such as advertising and computer services, are generating growing opportunities for high-skilled employment and accounted for three-quarters of the increase in private-sector jobs in 1995.

This projection of job creation, like other economic projections underlying the Ontario Budget, is intended to be a prudent planning assumption. The economy expanded at an annual rate of 0.8 per cent over the first half of the 1990s, well below Ontario's potential. This slow growth raised unemployment and created a huge pool of under-used capital. As a result, the Ontario economy has the capacity to grow significantly faster and create more jobs than the cautious projection in this Budget.



Sources: Statistics Canada and Ontario Ministry of Finance.

Sensitivity of Deficit to Changes in Economic Assumptions

Projections depend on prudent assumptions

This Budget presents prudent assumptions about interest rates and economic growth in order to develop a cautious fiscal projection. The following table indicates the sensitivity of the deficit to the direct impact of lower interest rates on public debt interest (PDI) and the impact of stronger economic growth on revenues and expenditures. These are partial calculations. For example, the impacts do not incorporate the economic benefit of lower interest rates on economic activity.

- The impact of a one percentage-point change in interest rates on PDI would be about $60 million in the first year and about $180 million in the second year. The low sensitivity of public debt interest payments to higher interest rates in 1996-97 reflects the fact that Ontario has already borrowed $5 billion for the current fiscal year.

Impact of Assumptions on the Ontario Deficit (change from base level)

	Deficit ($millions)	
	1996-97	1997-98
100 Basis Point Fall in Canadian Interest Rates	-60	-180
1 Percentage Point Increase in Real GDP Growth	-435	-880

*Note: Second-year figures are cumulative change from base level.

Source: Ontario Ministry of Finance

- Ontario's economic growth projections are more cautious than the consensus of private-sector forecasts to ensure that the plan to meet the fiscal targets set out in this Budget is realistic and achievable.

Cautious Economic Growth Assumptions

(per cent)	1996	1997	1998
Ontario Real GDP Growth			
Private-sector high	2.7	4.3	4.7
Private-sector low	1.5	2.3	2.2
Private-sector survey average	2.1	3.1	3.3
Ontario's prudent projection	1.9	2.8	3.0

Sources: Ontario Ministry of Finance Survey April 30 and Ontario Ministry of Finance

Note: The private-sector average is based on 10 respondents for 1996, 9 for 1997 and 5 for 1998.

The Ontario Economy, 1993-1998 **Table A1**
(per cent change)

	Actual			Projected		
	1993	**1994**	**1995**	**1996**	**1997**	**1998**
Real Gross Domestic Product	1.3	5.5	2.5	1.9	2.8	3.0
Personal consumption	1.3	2.9	1.4	1.2	3.1	3.0
Government spending	-0.6	0.1	-0.6	-3.2	-4.7	-3.4
Residential construction	-6.8	5.0	-12.0	3.4	9.0	9.3
Non-residential construction	-27.5	-2.2	-3.0	0.9	3.9	4.2
Machinery and equipment	11.1	13.8	12.4	7.9	6.2	7.8
Exports	8.6	12.7	10.3	8.7	5.1	4.6
Imports	8.8	11.8	10.1	6.9	4.6	4.4
Nominal Gross Domestic Product	2.0	5.2	3.3	3.4	4.4	4.8
Other Economic Indicators						
Retail sales	3.8	6.7	3.1	1.3	4.8	4.9
Housing starts (000s)	45.1	46.6	35.8	42.6	51.7	60.0
Personal income	0.8	2.2	3.2	2.7	3.9	4.4
Corporate profits	14.9	36.9	12.1	8.3	10.0	15.3
Ontario Consumer Price Index	1.7	0.1	2.4	1.4	1.6	1.8
Labour market						
Labour force	1.5	0.3	0.4	1.8	1.7	1.7
Employment	1.8	1.4	1.4	1.5	1.9	2.0
Unemployment rate (per cent)	10.6	9.6	8.7	8.9	8.8	8.5

Sources: Statistics Canada and Ontario Ministry of Finance

Spending Taxpayers' Dollars Wisely: Ontario's Balanced Budget Plan

INTRODUCTION

In June 1995, the government faced an $11.2 billion deficit. As a first step in improving the fiscal situation of the Province, in July 1995, the government announced a plan to reduce the 1995-96 deficit by $1.9 billion. In November, the Minister of Finance presented the 1995 Fiscal and Economic Statement confirming the $9.3 billion deficit outlook for 1995-96 and announcing further savings to be achieved in 1996-97.

This paper:

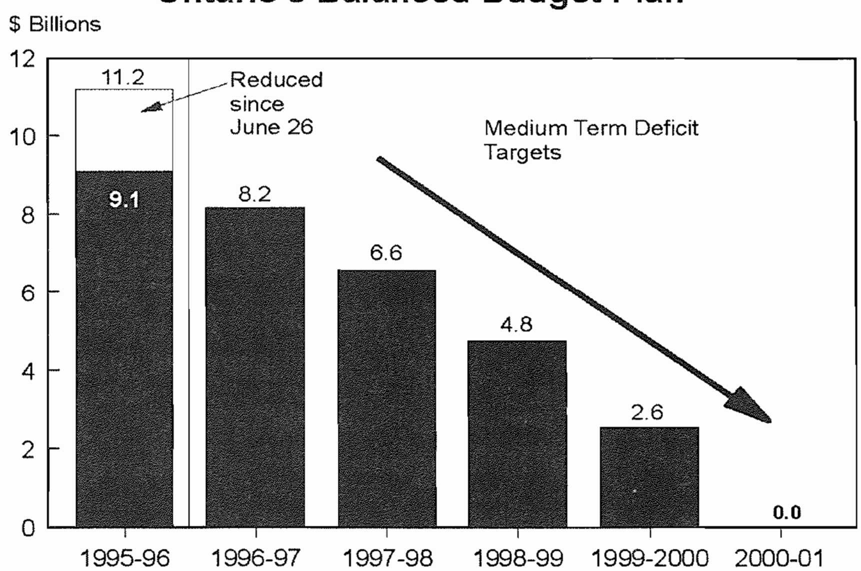
- reviews 1995-96 in-year fiscal performance;
- outlines the 1996-97 budget plan;
- sets out the medium term fiscal outlook; and
- outlines the Government's borrowing strategy.

BALANCING THE BUDGET

Government is on track to balance budget

In the November 1995 Fiscal and Economic Statement, the Government presented a Balanced Budget Plan. The Plan set out specific annual deficit targets culminating in a balanced budget by the year 2000-01. The Government is on track to meet these targets.

Ontario's Balanced Budget Plan



OVERACHIEVING THE 1995-96 DEFICIT TARGET

Deficit for 1995-96 lower than projected

Based on interim results, the deficit for 1995-96, at $9,098 million, overachieved the November Fiscal Plan deficit target by $210 million.

The 1995-96 interim results reported in this paper are based on information available as of April 25, 1996. These interim results are subject to year-end closing procedures and audit, and will be reflected in the 1995-96 Public Accounts.

1995-96 In-Year Fiscal Performance
($ Millions)

	Fiscal Plan	Interim	In-Year Change
Revenue	46,786	47,819	1,033
Expense:			
Programs	43,713	43,652	(61)
Restructuring and Other Charges	-	1,431	1,431
Total Program Expense	43,713	45,083	1,370
Capital	3,412	3,510	98
Public Debt Interest	8,969	8,324	(645)
Total Expense	56,094	56,917	823
Deficit	**9,308**	**9,098**	**(210)**

Since the release of the fiscal plan outlined in the November Statement, revenue has increased $1,033 million and total expense has increased $823 million. The increase in total expense is primarily due to $1,431 million in government restructuring and other charges.

1995-96 Revenues

Total revenue in 1995-96 was $1,033 million above the level projected in the November 1995 Fiscal and Economic Statement. Tax revenue was $561 million higher, Income from Government Enterprises, such as the Ontario Casino Corporation, was up $117 million and Federal Transfers were $422 million higher. Other revenue including Fines and Penalties, was down a net $67 million.

Summary of In-Year Revenue Changes, 1995-96 ($ Millions)		
Taxation Revenue		
Corporations Tax	520	
Employer Health Tax	50	
Other Taxation	(9)	
Total Taxation Revenue		**561**
Income from Government Enterprises		
Casino Corporation	19	
Ontario Lottery Corporation	20	
Ontario Realty Corporation	75	
Other Enterprises	3	
Total Income from Government Enterprises		**117**
Federal Transfers		
Fiscal Stabilization	367	
Other	55	
Total Federal Transfers		**422**
Other Revenue		
Fines and Penalties	(36)	
Sales and Rentals	(29)	
Other	(2)	
Total Other Revenue		**(67)**
Total In-Year Revenue Changes		**1,033**

Stronger economic growth boosted tax revenues

Stronger economic growth boosted tax revenues above the cautious November projections. Corporations Tax revenue accounted for most of the in-year tax revenue gain. Robust corporate profit growth pushed Corporations Tax revenue $520 million above the fiscal plan. Employer Health Tax revenue was $50 million higher, reflecting stronger-than-projected income growth. All other tax revenues followed closely the revenue outlook presented in the November Statement.

Total Federal payments were $422 million higher than the November outlook. This increase was primarily due to the receipt of $367 million as final settlement of Ontario's 1992-93 Fiscal Stabilization claim.

Income from Government Enterprises exceeded the November projections by $117 million as income from the Casino Corporation and Lottery Corporation were both higher than projected.

In keeping with the recommendations of the Ontario Financial Review Commission, the Ontario Realty Corporation has been classified as a government service organization rather than a government enterprise. As a result, its net loss of $75 million estimated in November for 1995-96 is no longer included under "Income from Government Enterprises". Instead, its revenues and expenses are consolidated on a line-by-line basis.

Other Revenue was down $67 million largely due to lower-than-expected revenue from Fines and Penalties and Sales and Rentals.

1995-96 In-Year Program Expense Changes

Program spending down by $61 million

Program spending, before restructuring and other charges, decreased $61 million from the fiscal plan presented in the 1995 Fiscal and Economic Statement.

Summary of In-Year Program Expense Changes, 1995-96 ($ Millions)

Ontario Student Assistance Plan	
- Increased provision for forgiveness of loans	136
- Increased provision for bad debts	34
1988 Grievance Settlement Costs - Property Assessors	29
Additional Cost of Royal Commission on Education Reform initiatives	15
Net Savings from OPSEU Strike	(105)
Ministry of Health - Various	(95)
Increased savings from elimination of JobsOntario program	(45)
General Legislative Grants	
- Social Contract and year-end Savings	(44)
Ontario Government Relocation Savings	(8)
Other (Net)	22
Total In-Year Program Expense Changes	**(61)**

An increase in expense for the Ontario Student Assistance Plan (OSAP) of $170 million results from a larger-than-expected increase in OSAP recipients than was estimated for in the 1995-96 year. Of this increase, $136 million is due to an additional provision for loan forgiveness while $34 million relates to an increased provision for bad debts. OSAP is a demand-driven, open-ended program. The adjustment properly reflects the costs of outstanding loan guarantees in the year they were made.

A settlement was reached in a classification grievance for property assessors, retroactive to 1988, which resulted in an increase of $29 million in expense for the Ministry of Finance.

Implementing the recommendations of the Royal Commission on Education Reform required an additional $15 million in 1995-96 to fund initiatives such as the Youth Transitions From School, Curriculum Standards and Assessment, Teacher Education Reform and Transfer of Technology into Schools.

Net savings arising from the strike by the Ontario Public Service Employees Union totalled an estimated $105 million.

Expenses in the Ministry of Health were $95 million below the fiscal plan. This reflects a refinement of expenditure requirements in a number of programs and year-end savings in administration.

Further savings of $45 million resulted from the elimination of the JobsOntario program.

General Legislative Grants in-year savings of $41 million in 1995-96 resulted from agreements with the Metro Toronto and Ottawa School Boards to recover outstanding Social Contract savings. An additional $3 million in savings resulted from year-end underspending.

A reduction in the purchase of furniture and equipment under the Ontario Government Relocation Program yielded $8 million in savings.

Provision for Government Restructuring and Other Charges

1995-96 figures include one-time charges

Under public sector accounting guidelines, the cost of decisions regarding restructuring or cancellation of programs is reflected in the year in which they are made. Accordingly, a number of one-time adjustments are required in 1995-96 to reflect government restructuring decisions and other charges.

Government Restructuring and Other Charges ($ Millions)	
Government Downsizing Provisions	
Employee Severance Charges (including pension costs)	520
Social Housing Cancellation Charges	128
Provision for Terminating Former MPP Pension Plan	30
Eglinton West Subway Suspension Costs	30
Other Provisions	
Increase in Provision for Early Retirement Pension Option	400
Corporate Tax Refunds - Oil and Gas and Mining Industry	260
Provision for Loan Losses & Guarantees - Ontario Development Corporations	63
Total 1995-96 Restructuring and Other Charges	**1,431**

During the year, the Government approved a number of actions that result in restructuring charges.

These actions include reducing the size of the Ontario Public Service and recognizing related employee severance costs, such as termination pay and salary during the notice period. Severance costs are included in 1995-96, the year the decision was made. Also included are the costs of the pension bridging option and the reopening of the early retirement pension option for affected employees. A provision of $520 million has been made for these costs.

In July 1995, non-profit housing projects that were under development but not yet under construction were cancelled. Third Quarter Ontario Finances for 1995-96 identified that a provision for these and other cancellation costs would be needed and noted that the precise amount would be included in the 1996 Budget. A charge of $128 million has been included for the cancellation of 395 projects for items such as selecting and obtaining appropriate sites and building permits.

Pension plan for MPPs has been ended

During the year, the Government decided to terminate the former pension plan for Members of Provincial Parliament. $30 million has been provided to terminate the plan and honour outstanding obligations.

In July 1995, the Government announced its intention to suspend the construction of the Eglinton West subway line. The provincial share of costs to suspend the project is estimated at $30 million.

Until March 31, 2000, Ontario Public Service employees may opt for retirement without pension penalty within three months of when their age plus years of service total 80 (i.e. Factor 80). The actual participation in this pension option is significantly greater than anticipated and the $400 million increase to the estimated cost of the Factor 80 program is reflected in the current period.

A settlement by Revenue Canada arising from a court ruling involving the computation of "resource profits" and related issues will result in corporations tax refunds for companies in the oil and gas and mining industries. Under Ontario's *Corporations Tax Act*, the Province adopts the federal definition of "resource profits". Refunds to be paid by the Province over the next three to four years are estimated at $260 million.

The provision to cover losses on loans and guarantees administered by the Ontario Development Corporations (ODC) is increased by $63 million. A decision to wind down ODC's loan portfolio was announced in the 1995 Fiscal and Economic Statement. The increase in the loan loss provision reflects the remaining anticipated loan losses over this period.

1995-96 In-Year Capital Expense Changes

The table below summarizes the major in-year capital changes from the November fiscal plan.

Summary of In-Year Capital Expense Changes, 1995-96 ($ Millions)	
Metro Toronto Convention Centre	75
Canada-Ontario Infrastructure Works Program	23
Grievance Settlement costs - Engineering staff	9
Other (Net)	(9)
Total In-Year Capital Expense Changes	**98**

The largest additional capital increase results from the Province providing a capital grant of $75 million towards the construction of the $185 million expansion of the Metro Toronto Convention Centre approved in November 1993. As recommended by the Ontario Financial Review Commission, the Province is showing this expenditure in its financial statements when it was paid.

The pace of municipal construction activity for approved projects under the Canada-Ontario Infrastructure Works program has exceeded projections, resulting in an increase of $23 million.

A settlement was reached in a classification grievance for engineering staff that resulted in an increase of $9 million in expenses in the Ministry of Transportation.

Public Debt Interest - 1995-96

Debt interest lower than expected

The interim result for Public Debt Interest (PDI) expense in 1995-96 was $8,324 million, compared to $8,969 million planned in the 1995 Fiscal and Economic Statement. The contingencies included in the PDI forecast proved to be too cautious. In fact, interest rates generally fell through the year and cash requirements decreased by over $2 billion. Lower interest rates coupled with lower cash requirements resulted in PDI being $645 million below forecast.

While the PDI forecast will continue to be cautious, changes have been made to ensure that forecast variances are reduced and that changes to the forecast are identified and reported as soon as possible.

Restatement of Prior-Year Public Accounts

Four items have been restated for prior years to reflect appropriate treatment under the Province's current accounting policies.

1993-94 and 1994-95 Restated Deficits ($ Million)

	1993-94	1994-95
Deficit per Public Accounts	10,848	10,129
Adjustments:		
Student Loan Program	250	234
Grants to School Boards	98	82
Legal Aid Program	104	6
Public Debt Interest	0	(174)
Restated Deficit	**11,300**	**10,277**

Refinements have been made to the way in which provisions and accrual amounts are calculated: forgiveness and default on student loans guaranteed by the Province under the Student Loan Program; operating grants to school boards; and the costs of the legal aid program. Under public sector accounting guidelines, when these types of changes are made, previous deficits are restated to show what they would have looked like had the new approach been used in those years.

In previous years the government recorded the costs of forgiving loans and covering defaulted loans under the Student Loan Program in the period when the banks were paid. Now, under the accrual basis of accounting, these expenses are recorded in the period when the government approves the loan application. As a result, Student Loan Program expenses have been increased $250 million in 1993-94 and $234 million in 1994-95.

In preparation for moving the budget to a basis consistent with public sector accounting guidelines, the Government undertook a thorough review of amounts owing for operating grants to school boards on March 31 of the current year and in each of the two previous years. These amounts must be estimated because the school boards are on a calendar fiscal year. This review revealed that of the amounts owing at March 31, 1996, $98 million related to the 1993-94 fiscal year, and $82 million related to 1994-95.

In previous years, the government recorded as its liability for legal aid the amount of unpaid invoices received from lawyers at year end. This method of accounting did not take into consideration work completed by lawyers for which no invoices had been received. The adjustment, increasing expenses by $104 million in 1993-94 and $6 million in 1994-95, reflects this additional liability.

In managing the Province's finances, the Ontario Financing Authority periodically restructures debt. Such activities result in equal and offsetting gains and losses in the components of debt being restructured. As a result of a debt restructuring undertaken in 1994-95, the full amount of a loss was charged to 1994-95 while the offsetting gain was deferred over a number of years. Public sector accounting practices require that such related gains and losses be recorded over the same periods. Applying this treatment to the 1994-95 restructuring decreases public debt interest in that year by $174 million.

OPEN AND ACCOUNTABLE FISCAL PLANNING

1996-97 Fiscal Plan

As a result of the measures announced in 1995-96 and those introduced in this Budget, the Government will meet the balanced budget deficit target for 1996-97 of $8.2 billion.

The following table summarizes the 1996-97 fiscal plan.

1996-97 Fiscal Plan
($ Millions)

	Interim 1995-96	Plan 1996-97	Change $Million	Change Per Cent
Revenue:				
Taxation	35,993	36,168	175	0.5
Federal Transfers	7,724	6,030	(1,694)	(21.9)
Income from Government Enterprises	1,317	1,682	365	27.7
Other Revenue	2,785	2,780	(5)	(0.2)
Total Revenue	47,819	46,660	(1,159)	(2.4)
Expense:				
Programs	43,652	41,841	(1,811)	(4.1)
Restructuring Fund and Other Charges	1,431	900	(531)	(37.1)
Total Program Expense	45,083	42,741	(2,342)	(5.2)
Capital	3,510	2,704	(806)	(23.0)
Public Debt Interest	8,324	8,745	421	5.1
Total Expense	56,917	54,190	(2,727)	(4.8)
Reserve	--	650	650	--
Deficit	**9,098**	**8,180**	**(918)**	**(10.1)**

1996-97 Revenues

Total revenue is projected to decline in 1996-97 to $46,660 million. This is primarily a result of falling federal transfers, which are expected to decrease by $1,694 million.

PIT revenue is projected at $15,213 million in 1996-97. This level reflects both cautious economic and revenue assumptions and the impact of the tax rate cut announced in this Budget.

Corporations Tax revenue is projected to increase by 5.1 per cent to $5,370 million as a result of continuing profit growth and the impact of the Corporations Tax changes announced in the Budget. Deliberately cautious assumptions for Corporations Tax revenue growth means it is projected to grow at less than estimated corporate profit growth of 8.3 per cent.

Retail Sales Tax (RST) revenue is estimated to be $9,520 million in 1996-97, an increase of 1.8 per cent from 1995-96. This growth is based on projected nominal GDP growth of 3.4 per cent and includes the two RST reduction measures announced in the Budget.

Employer Health Tax (EHT) revenue is projected to be $2,665 million. This reflects the impact of the EHT exemption announced in the Budget and continued growth in salaries and employment.

Gasoline and Fuel Tax revenues are expected to grow by 1.8 per cent to $2,505 million, in line with real GDP growth of 1.9 per cent. As gas and fuel are taxed by volume, the growth of these revenues reflects growth in Ontario's real GDP, rather than nominal GDP.

Income from 11 government enterprises is projected to increase in total by 27.7 per cent to $1,682 million. Income from the Liquor Control Board of Ontario (LCBO) and the Ontario Lottery Corporation is expected to rise as sales continue to expand with population and incomes. In addition, as a result of efficiency reviews of these corporations, profitability is expected to increase, improving the return to the Province.

An additional $60 million in Lottery Corporation income is also projected in 1996-97, as the implementation of the province's video lottery terminal network commences. Legislative amendments are being introduced to facilitate the establishment of this network.

Provincial revenue from casino operations is projected at $575 million in 1996-97, an increase from the $419 million received in 1995-96. This increase reflects having the Windsor Casino riverboat operational for the full fiscal year and the anticipated opening of interim casinos in Niagara Falls and Rama in 1996.

Primarily as a result of the overall federal plan to reduce federal transfers to provinces for priority programs such as health, higher education and social services by 42 per cent over the period 1995-96 to 1998-99, federal payments to Ontario will decline by $1,694 million in 1996-97.

In 1996-97, Established Programs Financing (EPF) and the Canada Assistance Plan (CAP) have been replaced by the Canada Health and Social Transfer (CHST) block fund. Amendments will be introduced to the *Family Benefits Act* to reflect this change. CHST cash transfers to Ontario will be $1,169 million lower in 1996-97 than the combined level for EPF and CAP in 1995-96.

Cautious economic and revenue assumptions

The decline in federal payments also reflects the impact of the one-time $367 million Fiscal Stabilization payment received in 1995-96 as well as reductions in a number of other federal-provincial transfer programs in areas such as training, bilingualism, young offenders and vocational rehabilitation.

Other revenue, including Vehicle and Driver Registration Fees, Other Fees and Licences and Liquor Licence Board of Ontario revenues, is estimated to be $2,780 million, approximately equal to the 1995-96 level. Included in this projection is approximately $20 million from the establishment of permanent charity event sites.

1996-97 Expenses

The 1996-97 expense plan reflects savings measures taken by the Government. In the November Statement, the government announced a two-year savings goal of $3 billion in operating expenses. This two-year goal covers the following categories of expenditures:

Finding cost savings in government

- internal administration to be reduced by 33 per cent by 1997-98, saving $300 million annually;
- program delivery and operations also to be reduced by 33 per cent by 1997-98, saving $1,100 million annually;
- agencies, boards and commissions to be reduced by 28 per cent by 1997-98, saving $220 million annually; and
- government grants to be reduced by 28 per cent as well, saving $1,400 million annually by 1997-98.

On April 11, the Chair of Management Board provided a progress report outlining $1.6 billion in identified savings to date. Of this amount, $1.5 billion relates to the $3 billion savings objective, marking the half-way point, with the balance to be found by the end of 1997-98.

In addition, the Government is reviewing capital programs to focus on core activities and achieve efficiencies.

Major Transfers, which include unconditional grants to municipalities, general legislative grants to schools and operating grants to universities, colleges and hospitals, represented approximately $15 billion in 1995-96 or one-third of program spending. As a result of funding levels announced in the November Fiscal and Economic Statement, all of the recipients of these transfer payments have been asked to find significant savings through restructuring, elimination of waste and more efficient administration.

To help the sectors find these savings, the Government has provided a variety of tools, including fewer provincial restrictions on funding, enhanced revenue-generating powers, and measures to reduce overlap and duplication.

As a result of these measures, the Government is on track to meet its savings targets.

Ontario Opportunities Fund

Ontario Opportunities Fund earmarked for reducing debt

To accelerate the pace of debt and deficit reduction, the Government is establishing the Ontario Opportunities Fund. The Fund will receive contributions from Ontarians, proceeds from major asset sales, and savings realized from the over-achievement of the Budget target in a given fiscal year. The $210 million over achievement in the 1995-96 deficit target will be applied to this fund. At the end of each fiscal year, the balance in the Ontario Opportunities Fund will be applied to reducing the debt of the Province.

Consistent with its commitment, the Government will amend the *Financial Administration Act* to create the Ontario Opportunities Fund account as part of the Public Accounts to reflect specific contributions to deficit reduction and debt retirement. The Budget and Public Accounts of the Province will report each year on the Ontario Opportunities Fund.

Prudent Budgeting

As part of the Government's cautious and prudent approach to fiscal planning, the 1996-97 fiscal plan includes a reserve of $650 million. The reserve is designed to cushion or protect the fiscal plan against potential unexpected and adverse changes in the economic outlook and its impact on revenues and public debt interest costs.

The reserve of $650 million could accommodate a variance in the revenue forecast equal to the revenue yield from approximately 1.5 percentage points of nominal GDP. Alternatively, this reserve could accommodate the equivalent of an unexpected drop of approximately seven per cent of Retail Sales Tax revenue or 12 per cent of Corporations Tax revenue.

If the reserve is not used or needed by year end, the unused reserve will be reflected in the Ontario Opportunities Fund.

In addition to the reserve, $900 million has been set aside in 1996-97 to create a Restructuring Fund. This fund will allow for investments that support restructuring efforts and will cover the one-time costs of government restructuring.

MEDIUM TERM OUTLOOK

The Government is on track to meet the balanced budget deficit targets outlined in the November 1995 Fiscal and Economic Statement.

Under the Plan, Ontario's deficit will be cut from $9.1 billion in 1995-96 to $8.2 billion in 1996-97. In 1997-98, the deficit will be cut further to $6.6 billion.

Deficit projected at $6.6 billion for 1997-98

Medium Term Fiscal Outlook
($ Billions)

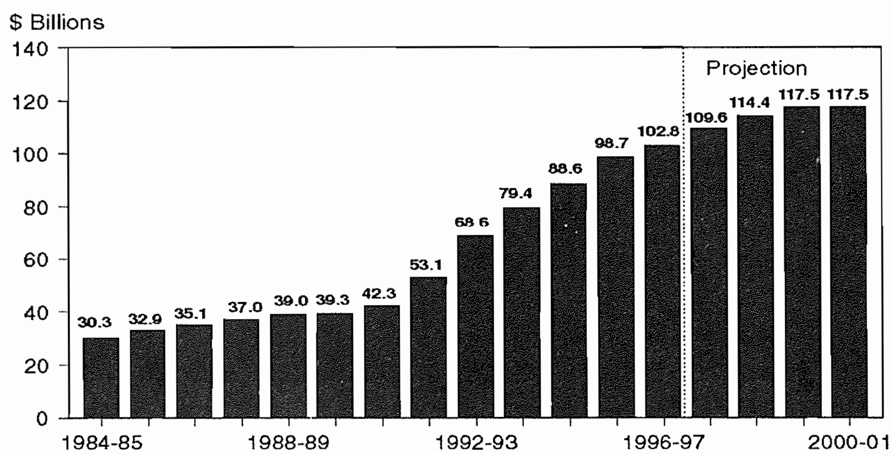
	Interim 1995-96	Plan 1996-97	Outlook 1997-98
Revenue	47.8	46.7	46.1
Expense:			
Programs	43.7	41.8	40.4
Restructuring Fund and Other Charges	1.4	0.9	-
Total Program Expense	45.1	42.7	40.4
Capital	3.5	2.7	2.2
Public Debt Interest	8.3	8.7	9.4
Total Expense	56.9	54.2	52.0
Reserve	--	0.7	0.7
Deficit	**9.1**	**8.2**	**6.6**

Note: Totals may not add due to rounding.

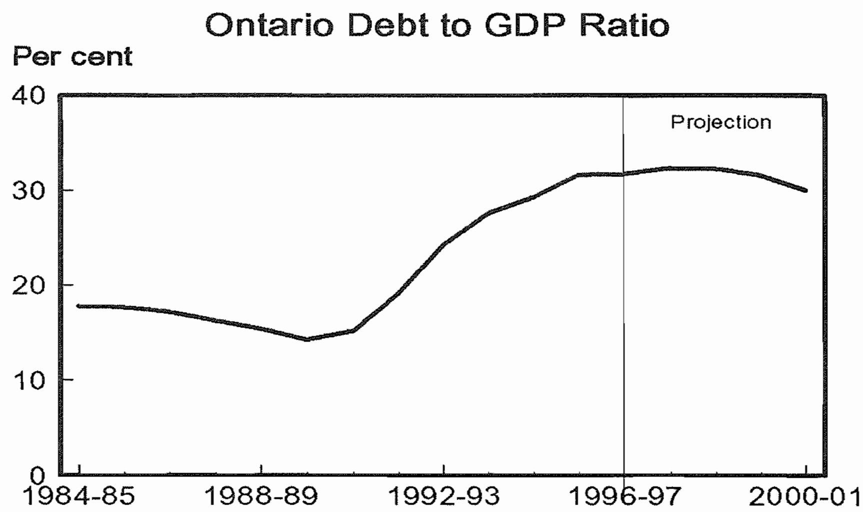
Achievement of a balanced budget by 2000-01 will also affect two other key fiscal performance measures.

- It will stop the growth of Ontario's debt by 2000-01.

Ontario's Projected Debt



- It will reduce debt as a per cent of GDP beginning in 1998-99.



BORROWING AND DEBT MANAGEMENT

In 1995-96, the Ontario Financing Authority borrowed a total of $12.3 billion. These funds were used as follows:

Ontario's Financing, 1995-96 ($ Billion)	
Deficit	9.1
Non-Cash Items	(2.4)
Borrowing Requirements	6.7
Plus:	
Maturities	2.1
Borrowing on Behalf of Agencies	0.5
Total Borrowing Requirements	9.3
Total Borrowing Completed	12.3
Increase in Liquid Reserves	3.0

The Province's total direct debt on March 31, 1996 was $98.7 billion, up from $88.6 billion on March 31, 1995. It is forecast to be $102.8 billion on March 31, 1997. This small increase reflects the lower deficit and an accelerated borrowing program during 1995-96 to take advantage of low interest rates.

As a government agency, the Authority adheres to prudent practices in managing the Province's debt. Risk-management activities are governed by strict policies and procedures limiting Ontario's exposure to interest rate and currency fluctuations.

The Ontario Financing Authority is responsible for managing all of the borrowings that rely on the Province's credit strength. As such, the Authority continues to coordinate financing strategy with Ontario Hydro. While Ontario Hydro is issuing new bonds to refinance maturing debt, it is now paying down debt.

The Province's declining deficit, coupled with Hydro's lower borrowing requirements are clear, positive signals to lenders and investors, and reflect favourably on their perceptions of Ontario and its finances. For example, in February the Authority issued a 10 year US$ Global bond at a premium of 48 basis points over US Treasury Bonds. This was the lowest premium since 1990.

Prudent Development of Financing Opportunities

To meet the Province's financing requirements in a cost-effective way, the Ontario Financing Authority has developed a series of targetted financial products attractive to fixed-income investors in both domestic and international markets.

While the Canadian domestic market remained the primary source of funds in the past year, the Ontario Financing Authority continued cautiously to diversify its use of financing instruments and markets last year. Taking advantage of a strengthening Canadian dollar, the Authority launched the first Canadian Dollar Global bond issue since 1994. U.S. Dollar Global, Swiss Franc and Deutschemark bonds were also issued.

The Authority also created, in cooperation with private sector advisors, the first 'retirement bond' designed to appeal to Canadian retail investors. Canadian, U.S., and Australian dollar bonds, designed to appeal to Japanese retail investors, were issued as well. The Authority also raised funds through direct agreements with a number of large institutional investors.

Lower interest rates enabled the Authority to reduce interest costs for new issues and refinancings. Some maturing debt had interest rates as high as 12.96 per cent; this debt has been refinanced with long-term Canadian interest rates as low as 7.5 per cent.

Borrowing Outlook

Each year the Authority borrows to finance the current year's deficit; finance a portion of the following year's requirements; and refinance maturing debt.

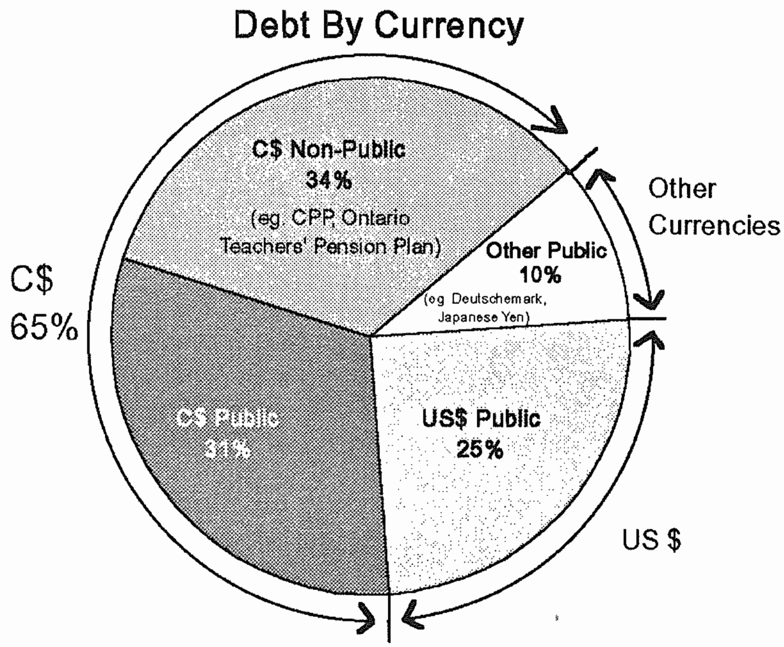
Ontario Savings Bonds to be issued in June

The Authority began the 1996-97 fiscal year with liquid reserves in excess of $11 billion. To complete the Province's borrowing program for the current year, including refinancing of $6.1 billion for maturing debt, the Authority will borrow $10 billion, including monies raised from Ontario Savings Bonds, which will be launched this June.

Significant improvement in the Province's fiscal position over the medium term will result in the continued decline of new borrowing requirements.

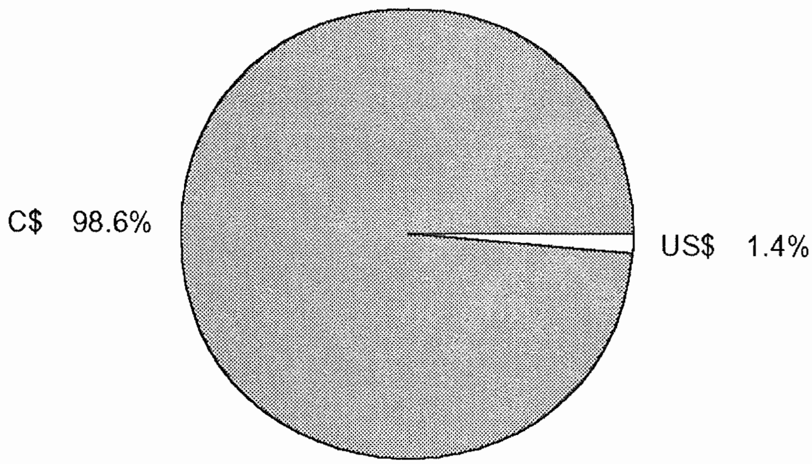
Ontario's Debt Composition

- The following chart illustrates the currencies in which Ontario's debt has been issued.



Although $34.2 billion (or 35%) of Ontario's debt was issued in foreign currencies, transactions have been entered into that have eliminated all but $1.3 billion (or 1.4%) of Ontario's exposure to foreign currencies.

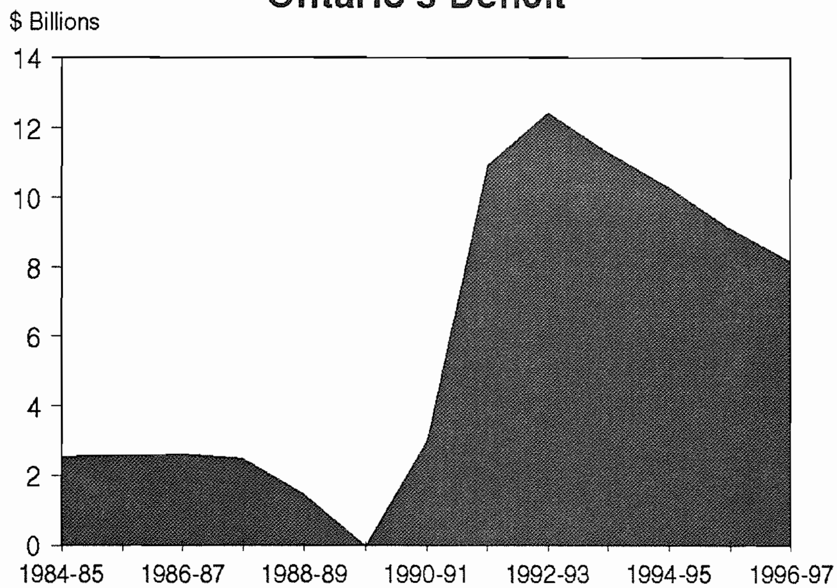
Ontario Foreign Currency Debt $34.2 Billion:
Net Foreign Currency Exposure



FISCAL INDICATORS

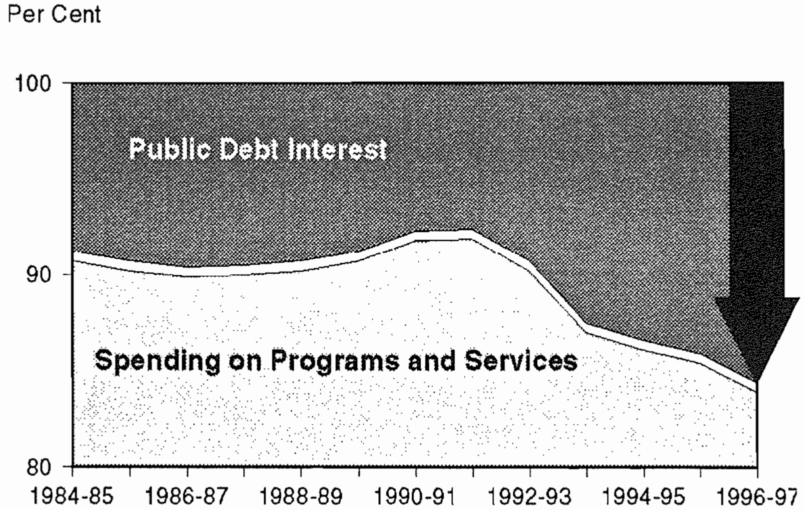
Several commonly used indicators to review Ontario's recent fiscal performance are presented below.

Ontario's Deficit



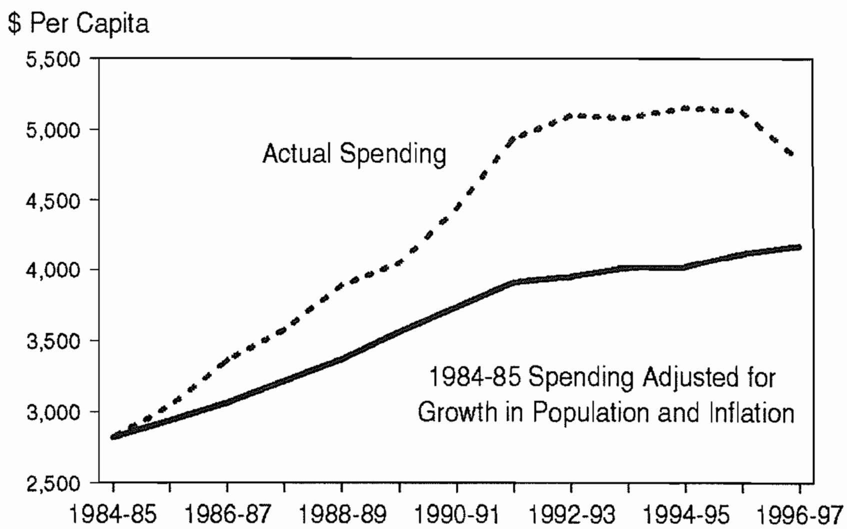
Note: Prior to 1993-94 data on a modified cash basis.

PDI Crowding out Funding for Programs and Services



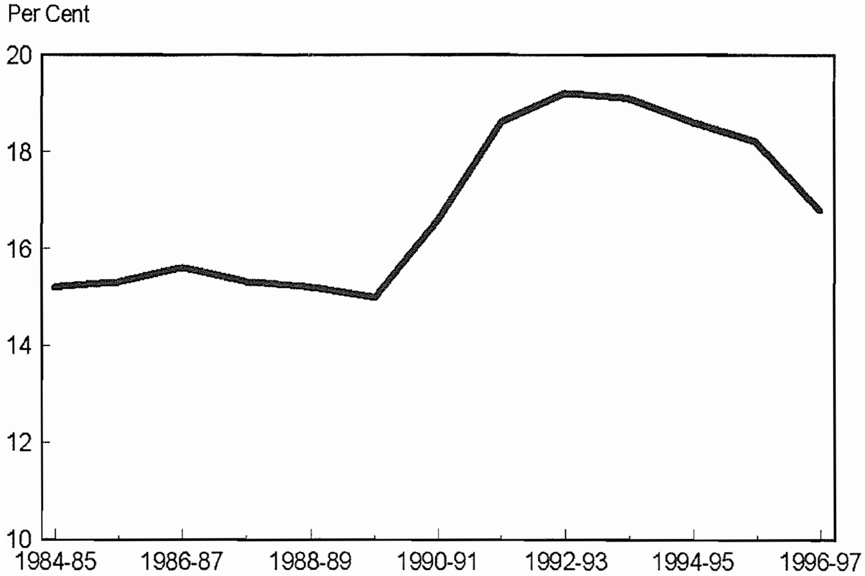
Note: Prior to 1993-94 data on modified cash basis

Spending has Grown Faster Than the Growth in Population and Inflation



Note: Prior to 1993-94 data on a modified cash basis.

Spending to GDP Ratio



Note: Prior to 1993-94 data on a modified cash basis

Financial Tables and Graphs

Statement of Financial Transactions (PSAAB Basis) ($Millions)

Table C1

	Actual 1992-93	Actual 1993-94	Actual 1994-95	Interim 1995-96	Plan 1996-97
Revenue	41,807	43,674	46,039	47,819	46,660
Expense					
Programs	45,350	44,293	44,653	43,652	41,841
Restructuring Fund and Other Charges	-	-	--	1,431	900
Total Programs Expense	45,350	44,293	44,653	45,083	42,741
Capital	3,592	3,552	3,831	3,510	2,704
Public Debt Interest	5,293	7,129	7,832	8,324	8,745
Total Expense	54,235	54,974	56,316	56,917	54,190
Reserve	-	-	-	-	650
Deficit	**12,428**	**11,300**	**10,277**	**9,098**	**8,180**

Note: 1992-93 on former modified cash basis of accounting.

Ontario Opportunities Fund ($ Million)

		1995-96
Debt Issued for Provincial Purposes (April 1, 1995)		$88,580
Add: Borrowing Requirements to finance projected deficit of $9,308 million	6,738	
Increase in liquid reserves and investments in agencies	3,614	
Increase in debt:		$10,352
Debt Before Ontario Opportunities Fund		98,932
Less:		
Ontario Opportunities Fund		
Over achievement in 1995-96 deficit target	210	
Fund Balance Applied to Debt Reduction		(210)
Debt Issued for Provincial Purposes (March 31, 1996)		$98,722

Revenue **Table C2**
(PSAAB Basis)
($Millions)

	Actual 1992-93	Actual 1993-94	Actual 1994-95	Interim 1995-96	Plan 1996-97
Taxation Revenue					
Personal Income Tax	13,543	14,723	14,758	15,443	15,213
Retail Sales Tax	7,316	8,124	9,090	9,355	9,520
Corporations Tax	2,713	3.447	4,557	5,110	5,370
Employer Health Tax	2,592	2,665	2,640	2,670	2,665
Gasoline Tax	1,834	1,907	1,939	1,950	1,985
Fuel Tax	439	460	495	510	520
Tobacco Tax	969	724	322	330	330
Land Transfer Tax	363	321	372	346	365
Other Taxation	272	288	286	279	200
	30,041	**32,659**	**34,459**	**35,993**	**36,168**
Government of Canada					
Canada Health and Social Transfer			-	-	5,260
Established Programs Financing	4,316	3,790	4,059	3,921	-
Canada Assistance Plan	2,283	2,399	2,577	2,508	-
Fiscal Stabilization	300	227	184	367	-
National Training Act	104	76	75	61	26
Bilingualism Development	70	70	65	58	50
Young Offenders	60	59	82	63	59
Vocational Rehabilitation	75	65	61	63	46
Canada-Ontario Infrastructure Works	-	-	82	313	223
Other	346	385	422	370	366
	7,554	**7,071**	**7,607**	**7,724**	**6,030**
Income from Government Enterprises					
Ontario Lottery Corporation	538	602	631	645	736
Liquor Control Board of Ontario	615	599	637	669	685
Ontario Casino Corporation	-	-	316	419	575
Ontario Housing Corporation	-	(275)	(273)	(268)	(232)
GO Transit	-	(136)	(166)	(170)	(157)
Other	-	(25)	(77)	22	75
	1,153	**765**	**1,068**	**1,317**	**1,682**
Other Revenue					
Vehicle/Driver Registration Fees	665	695	751	760	790
Other Fees and Licences	584	663	686	670	680
Liquor Licence Board of Ontario Revenues	511	522	532	530	530
Royalties	191	239	223	242	260
Sales and Rentals	512	486	98	56	67
Fines and Penalties	152	141	163	105	100
Miscellaneous	444	433	452	422	353
	3,059	**3,179**	**2,905**	**2,785**	**2,780**
Total Revenue	**41,807**	**43,674**	**46,039**	**47,819**	**46,660**

Note: 1992-93 on former modified cash basis of accounting.

Operating Expense **Table C3**
(PSAAB Basis)
($Millions)

Ministry	Actual 1992-93	Actual 1993-94	Actual 1994-95	Interim 1995-96	Plan 1996-97
Agriculture, Food and Rural Affairs	552	533	409	422	425
Attorney General	736	901	799	753	637
Board of Internal Economy	133	137	135	210	120
Citizenship, Culture and Recreation	409	370	408	376	322
Community and Social Services	8,544	9,165	9,364	8,770	8,200
Consumer and Commercial Relations	173	175	150	141	110
Economic Development, Trade and Tourism	427	416	463	438	245
Education and Training	8,964	8,789	8,461	8,156	7,601
Teachers' Pension Plan	933	467	643	795	902
Environment and Energy	434	390	272	243	172
Executive Offices	13	13	10	13	13
Finance - Own Account	885	562	930	683	392
Public Debt Interest	5,293	7,129	7,832	8,324	8,745
Health	17,525	17,375	17,599	17,679	17,718
Intergovernmental Affairs	9	7	6	5	5
Labour	241	180	135	141	115
Management Board Secretariat	264	116	337	625	432
Public Service/OPSEU Pension Plan	381	737	738	734	284
Contingency Fund	-	-	-	-	213
Employee Severance	-	-	-	520	-
Municipal Affairs and Housing	1,987	1,559	1,487	1,793	1,888
Native Affairs Secretariat	17	14	16	16	13
Natural Resources	584	502	478	523	373
Northern Development & Mines	105	83	54	49	42
Office of Francophone Affairs	4	3	3	3	2
Office Responsible for Women's Issues	24	23	22	20	17
Solicitor General and Correctional Services	1,168	1,168	1,136	1,133	1,116
Transportation	838	608	598	842	684
Restructuring Fund	-	-	-	-	900
Year-end Savings	-	-	-	-	(200)
Total Operating Expense	**50,643**	**51,422**	**52,485**	**53,407**	**51,486**

Note: 1992-93 on former modified cash basis of accounting.

Capital Expense **Table C4**
(PSAAB Basis)
($Millions)

Ministry	Actual 1992-93	Actual 1993-94	Actual 1994-95	Interim 1995-96	Plan 1996-97
Agriculture, Food and Rural Affairs	21	13	12	5	-
Attorney General	7	3	4	17	46
Citizenship, Culture and Recreation	94	28	42	24	6
Community and Social Services	57	77	72	25	38
Economic Development, Trade and Tourism	39	113	117	112	41
Education and Training	543	432	421	576	222
Environment and Energy	230	162	271	232	196
Finance	3	3	3	-	-
Health	230	309	249	135	167
Management Board Secretariat	192	169	260	248	146
Contingency Fund	-	-	-	-	14
Municipal Affairs and Housing	103	96	310	483	332
Native Affairs Secretariat	17	15	17	10	15
Natural Resources	75	95	54	47	32
Northern Development & Mines	239	208	240	173	228
Solicitor General and Correctional Services	4	5	2	3	6
Transportation	1,738	1,824	1,757	1,420	1,215
Total Capital Expense	**3,592**	**3,552**	**3,831**	**3,510**	**2,704**

Note: 1992-93 on former modified cash basis of accounting.

Financing **Table C5**
(PSAAB Basis)
($Millions)

	Actual 1992-93	Actual 1993-94	Actual 1994-95	Interim 1995-96	Plan 1996-97
Debt Issues:	16,605	11,991	11,327	12,029	10,000
Debt Retirements:					
Canada Pension Plan	(537)	(607)	(702)	(784)	(813)
Ontario Teachers' Pension Plan	(506)	(251)	(64)	(198)	(337)
OPSEU Pension Plan	-	-	(9)	(43)	(44)
Public Service Pension Plan	(62)	(106)	(95)	(182)	(95)
Municipal Employees Retirement Fund	-	(130)	(149)	(92)	(20)
Public	(7)	(273)	(1,289)	(833)	(4,759)
Other	(10)	(11)	(22)	(10)	(18)
	(1,122)	(1,378)	(2,330)	(2,142)	(6,086)
Net Debt Issues	15,483	10,613	8,997	9,887	3,914
Province of Ontario Savings Office and Other Liabilities - Net	41	219	144	255	184
Net Financing	**15,524**	**10,832**	**9,141**	**10,142**	**4,098**
Net Loan Repayments/(Issues)	(309)	507	75	(442)	(533)
Decrease/(Increase) in Cash	(2,787)	(3,217)	490	(2,962)	4,705
Net Change in Receivables and Payables	-	3,178	571	2,360	(90)
Increase in Accumulated Deficit	**12,428**	**11,300**	**10,277**	**9,098**	**8,180**

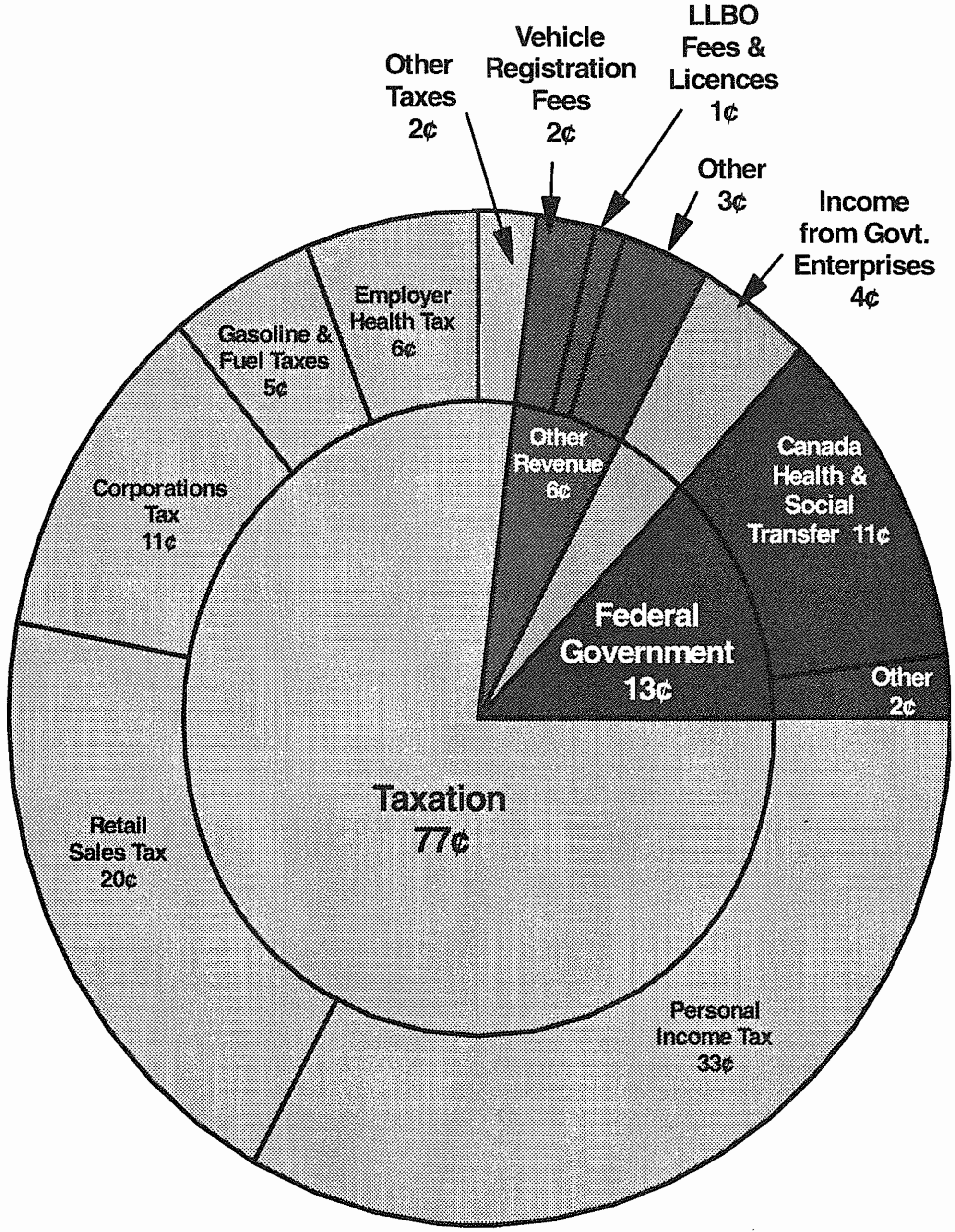
Ten-Year Review of Selected Financial and Economic Statistics
($Millions)

	Modified Cash Basis			
	1987-88	**1988-89**	**1989-90**	**1990-91**
Financial Transactions				
Revenue	32,158	36,991	41,225	42,892
Expense:				
Programs	28,548	31,435	33,926	38,924
Restructuring Fund and Other Charges	-	-	-	-
Total Program Expense	28,548	31,435	33,926	38,924
Capital	2,623	3,268	3,392	3,221
Public Debt Interest	3,476	3,767	3,817	3,776
Total Expense	34,647	38,470	41,135	45,921
Reserve	-	-	-	-
Deficit/(Surplus)	**2,489**	**1,479**	**(90)**	**3,029**
Provincial Purpose Debt	**36,981**	**39,014**	**39,256**	**42,257**
Gross Domestic Product (GDP) at Market Prices	226,313	252,631	274,833	277,454
Personal Income	185,882	206,780	226,707	239,036
Population - July (000s)	9,685	9,884	10,151	10,341
Total Debt per Capita (dollars)	3,818	3,947	3,867	4,086
Personal Income per Capita (dollars)	19,193	20,921	22,333	23,115
Total Expense as a per cent of GDP	15.3	15.2	15.0	16.6
Public Debt Interest as a per cent of Revenue	10.8	10.2	9.3	8.8
Total Debt as a per cent of GDP	16.3	15.4	14.3	15.2
Cumulative Net Borrowing for Ontario Hydro				
U.S.	6,033	5,692	5,150	5,049
C.P.P.	1,508	2,097	2,748	2,748
Contingent Liability (mainly Ontario Hydro)	18,595	20,559	21,490	26,009

Note: 1993-94 and 1994-95 restated actuals.

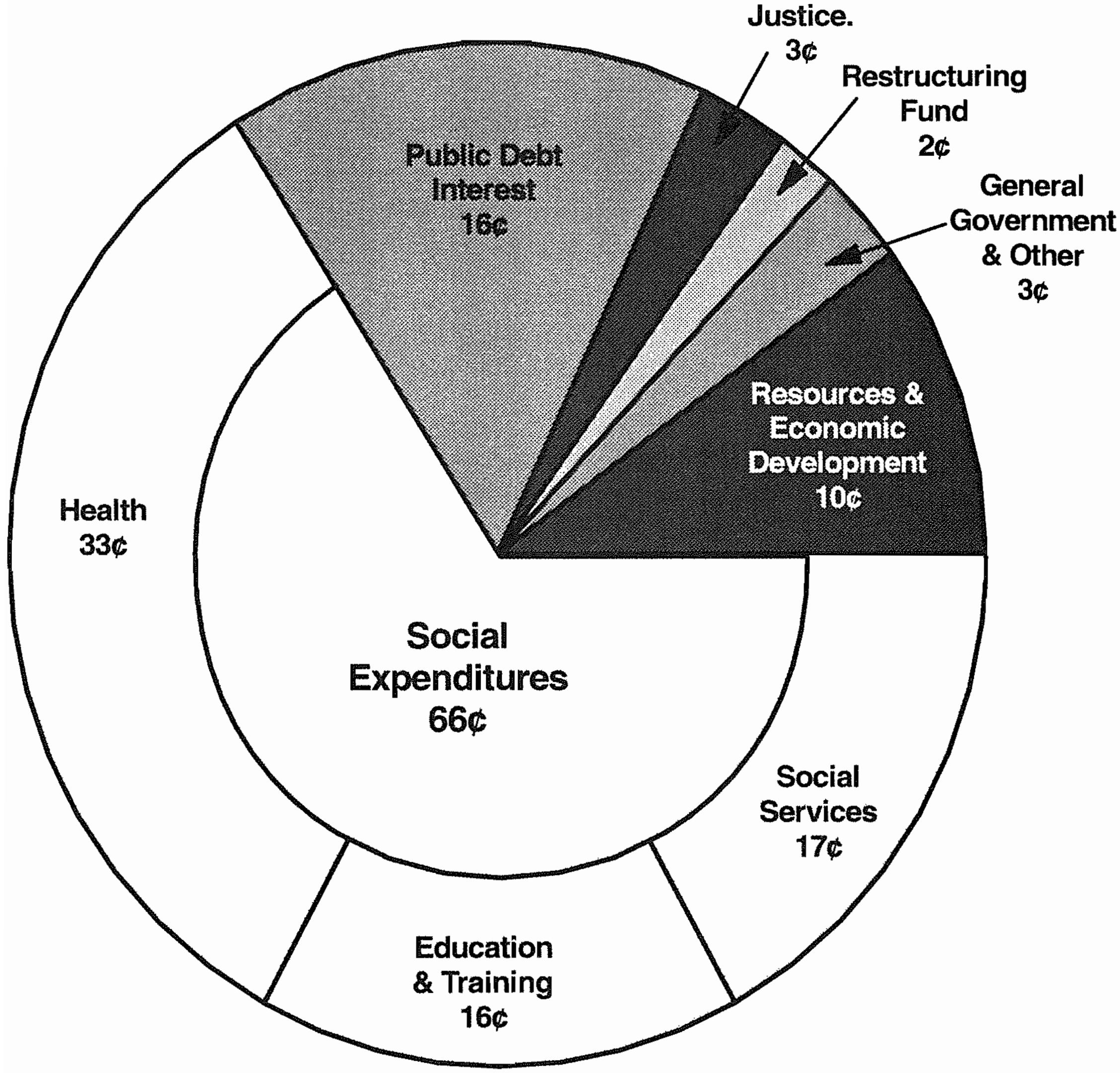
1991-92	1992-93	PSAAB Basis 1993-94	1994-95	Interim 1995-96	Plan 1996-97
40,753	41,807	43,674	46,039	47,819	46,660
43,613	45,350	44,293	44,653	43,652	41,841
-	-	-	-	1,431	900
43,613	45,350	44,293	44,653	45,083	42,741
3,874	3,592	3,552	3,831	3,510	2,704
4,196	5,293	7,129	7,832	8,324	8,745
51,683	54,235	54,974	56,316	56,917	54,190
-	-	-	-	-	650
10,930	**12,428**	**11,300**	**10,277**	**9,098**	**8,180**
53,083	**68,607**	**79,439**	**88,580**	**98,722**	**102,820**
277,851	282,040	287,651	302,482	312,414	323,025
245,137	250,332	252,434	258,088	266,326	273,425
10,472	10,646	10,816	10,936	11,100	11,318
5,069	6,444	7,345	8,100	8,894	9,085
23,409	23,513	23,340	23,599	23,993	24,158
18.6	19.2	19.1	18.6	18.2	16.8
10.3	12.7	16.3	17.0	17.4	18.7
19.1	24.3	27.6	29.3	31.6	31.8
4,185	3,969	1,789	1,088	1,060	n/a
2,748	2,748	2,748	2,748	2,748	n/a
30,369	34,657	34,008	33,420	30,747	n/a

The Budget Dollar: Revenue 1996-97



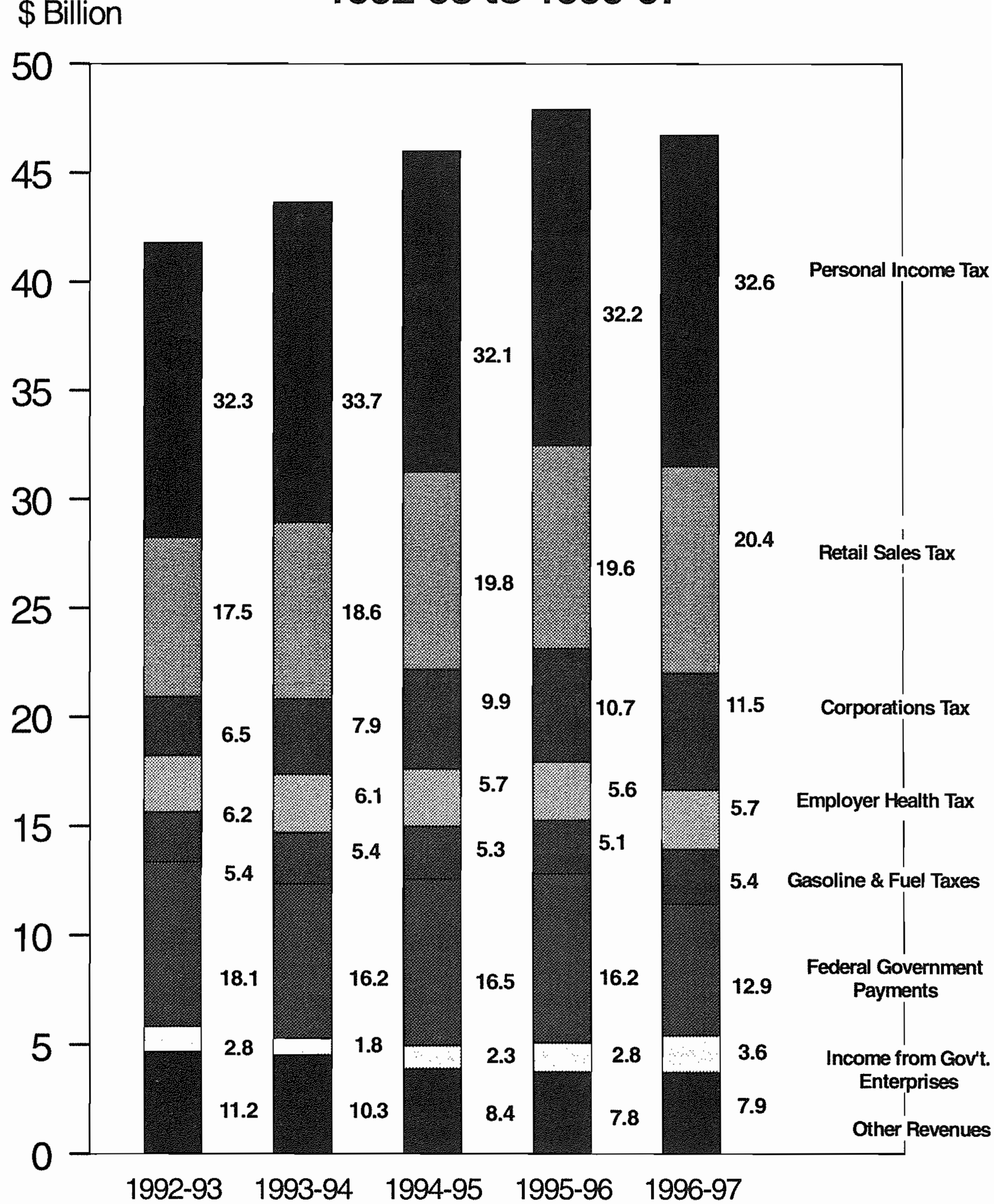
PSAAB Basis

The Budget Dollar: Total Expense
1996-97



PSAAB Basis

Revenue Sources By Category:
Per Cent of Total
1992-93 to 1996-97



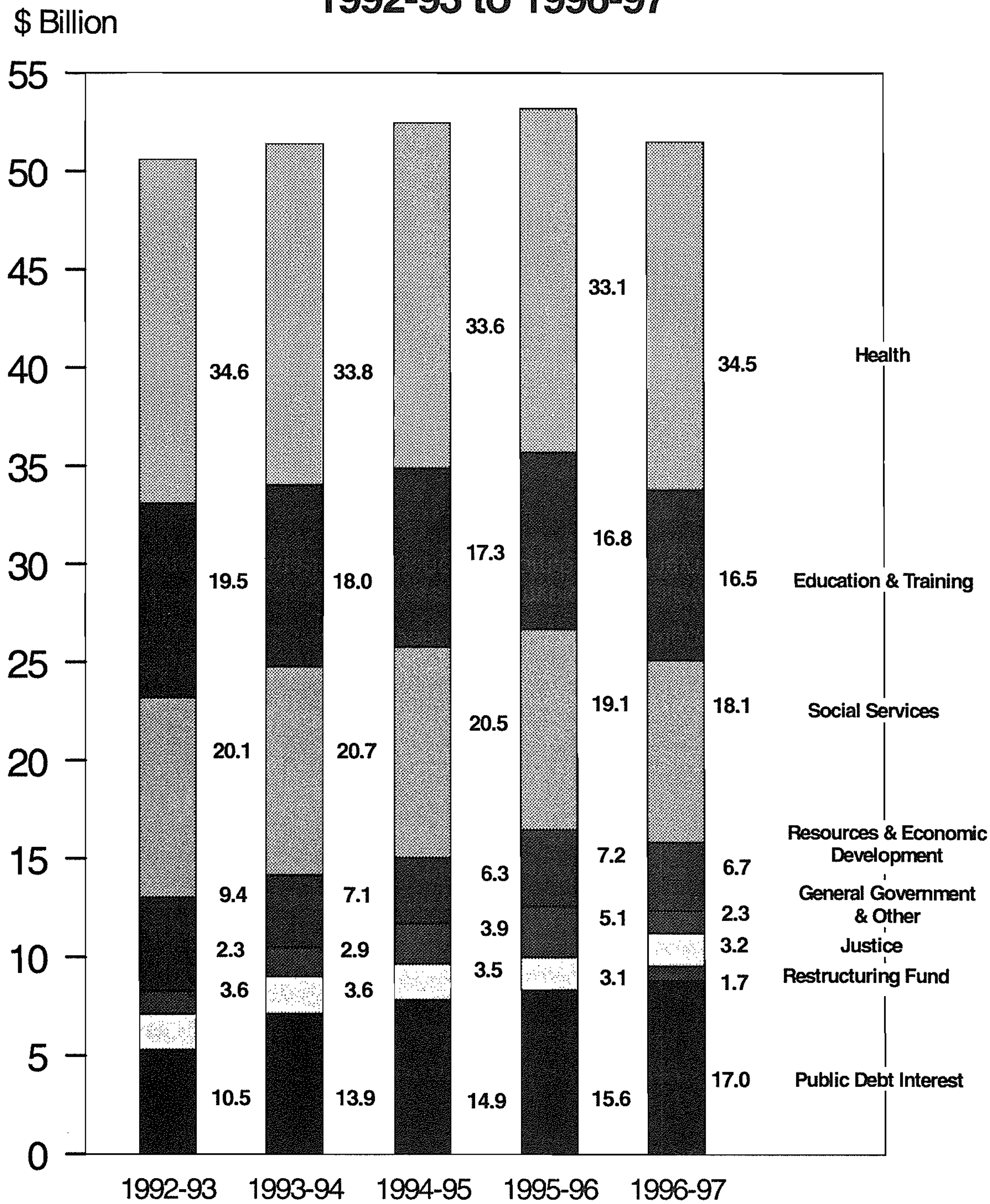
Note: 1992-93 on former modified cash basis of accounting

PSAAB Basis

Operating Expense by Category

Per Cent of Total

1992-93 to 1996-97



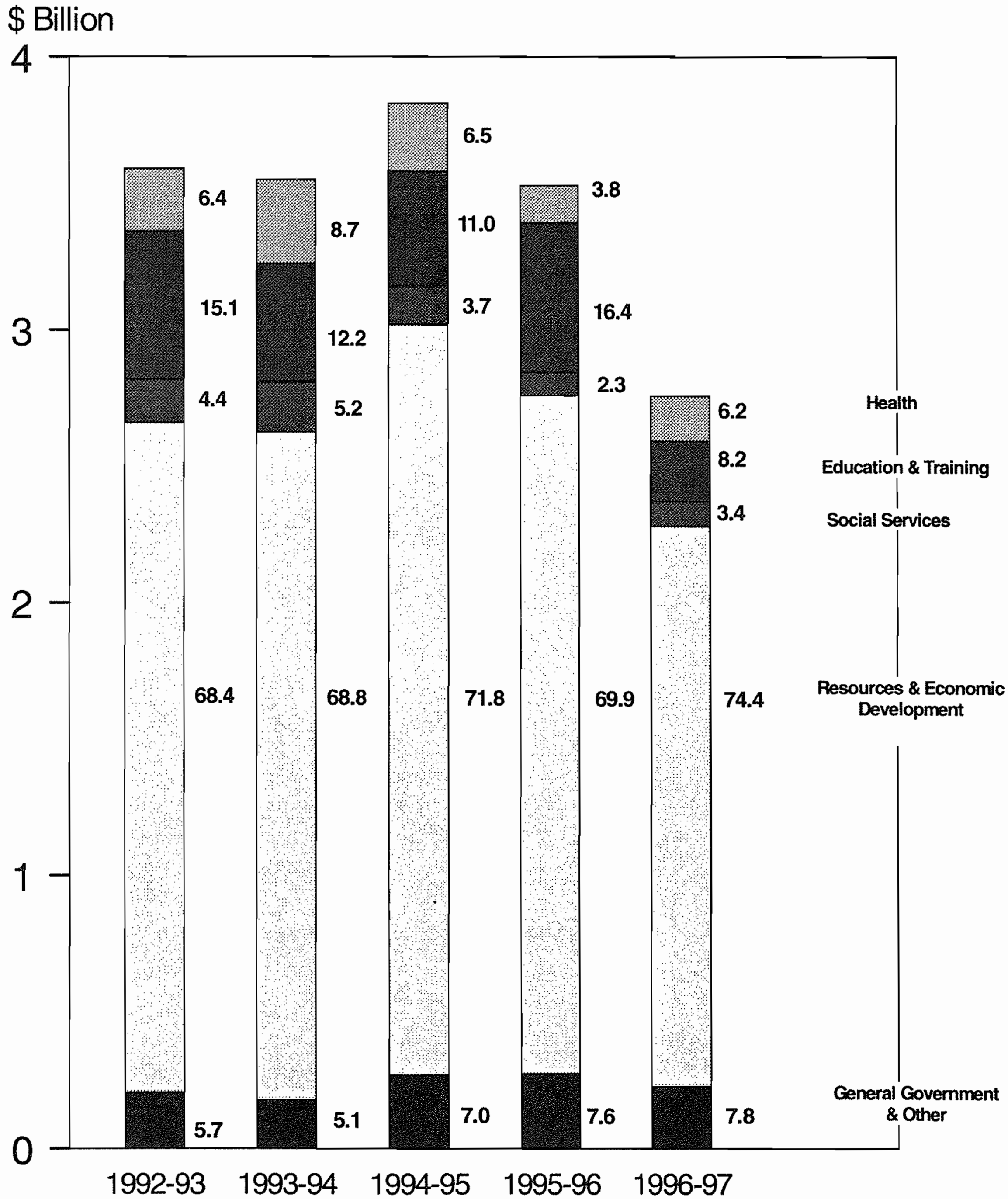
Note: 1992-93 on former modified cash basis of accounting

PSAAB Basis

Capital Expense by Category

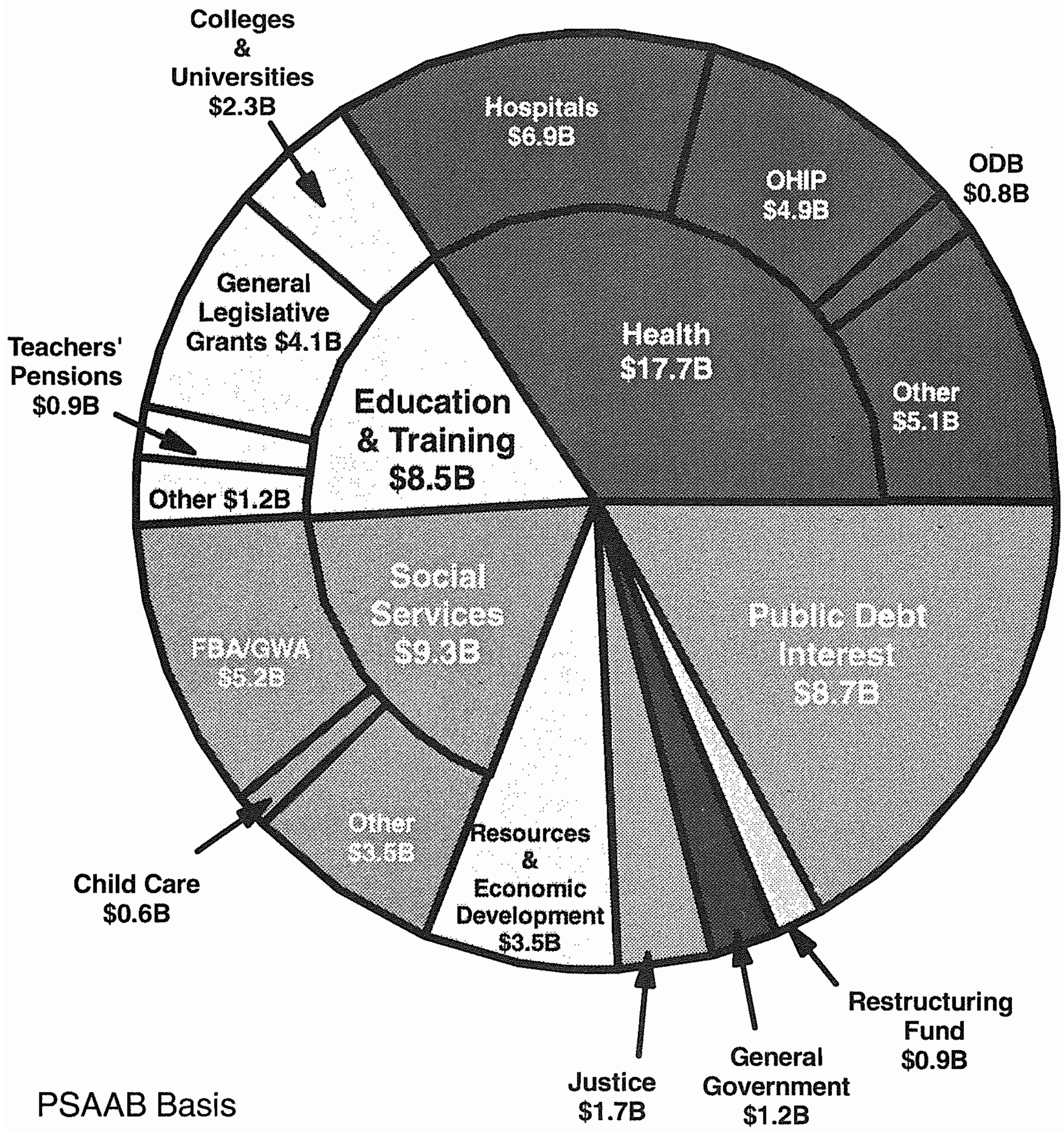
Per Cent of Total

1992-93 to 1996-97



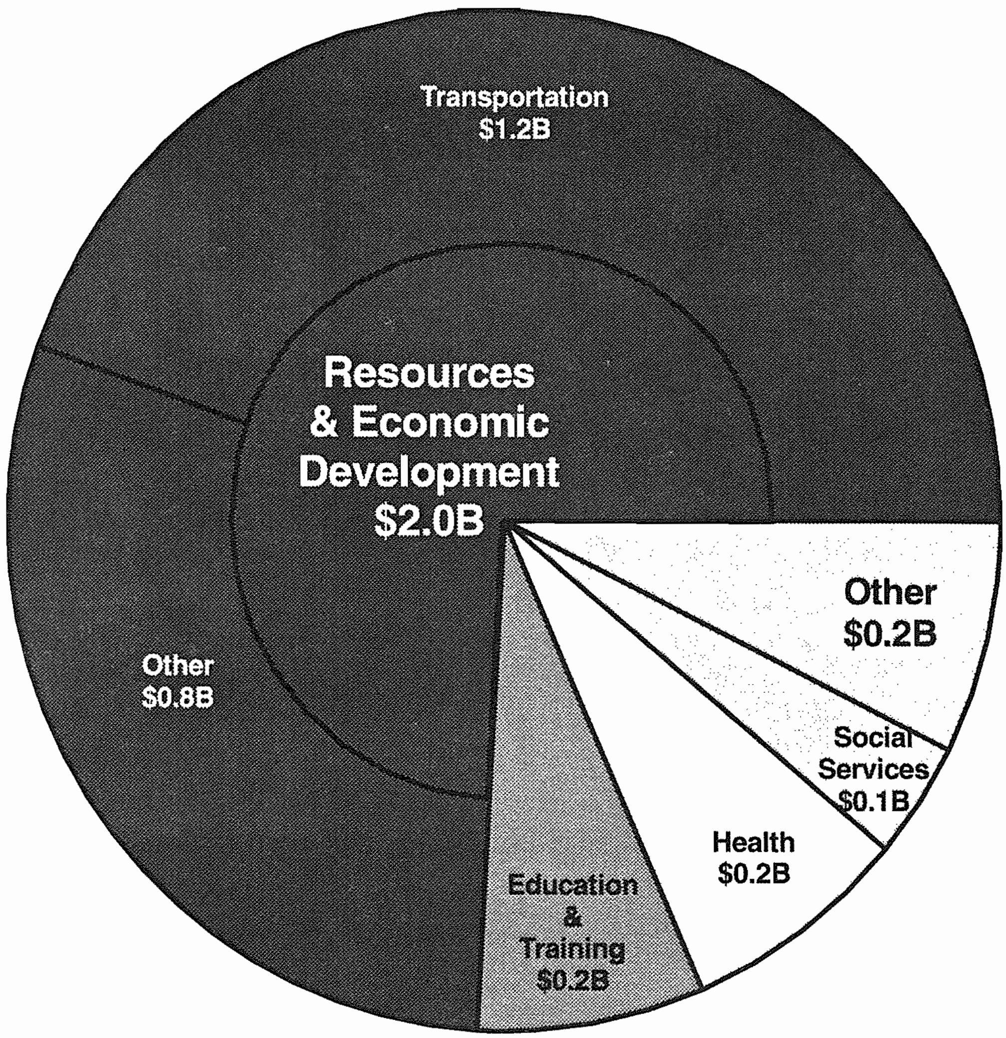
Note: 1992-93 on former modified cash basis of accounting
PSAAB Basis

1996-97 Operating Expense by Sector
($ Billion)



PSAAB Basis

1996-97 Capital Expense by Sector
($ Billion)



PSAAB Basis

Economic Policies for Jobs and Growth

Economic policies for jobs and growth

In this budget, Ontario's government outlines three sets of measures that will improve the province's economic performance:

- it will cut the tax burden that hurt the economy and killed jobs;
- it will balance the budget by 2000-01; and
- it will restructure government to stimulate economic growth, not obstruct it.

These measures are based on the *Common Sense Revolution* plan which was outlined before the last provincial election. They also bring Ontario's fiscal and economic direction into line with what economists increasingly see as optimum public policy.

Economic growth is vital to creating jobs. These policies support growth that will lead directly to the creation of productive jobs in the private sector. Such policies must be put in place quickly, because past policy has pushed Ontario in the wrong direction on all fronts — towards overspending, overtaxation and over-regulation.

Economic policy in Ontario is catching up with Ontarians' common-sense understanding of what government can do to foster a strong economy: cut taxes, reduce red tape, and provide services efficiently. This paper documents the growing body of economic research confirming that these policies lead to stronger growth and job creation.

Economic policy is catching up with common sense in Ontario

Policies must work together

The three sets of policies outlined by this Budget are designed to work together, reinforcing one another, to create jobs and benefit the Ontario economy.

There are several reasons to move decisively on all three fronts now:

- A tax cut builds confidence and economic momentum, boosting private-sector growth and creating jobs.
- The stimulus of a tax cut will cushion the impact of government's cost-saving measures.
- The tax cut will do the most good if delivered early, while there is still slack in the economy, because it encourages quicker re-employment of idle resources.
- International evidence shows that one characteristic of those governments that have been most successful at reducing their debt was early and significant spending reductions; countries that tried to reduce debt through tax increases and minor spending reductions were generally unsuccessful.

- New technologies provide opportunities to restructure government to deliver core services better while achieving large cost savings.

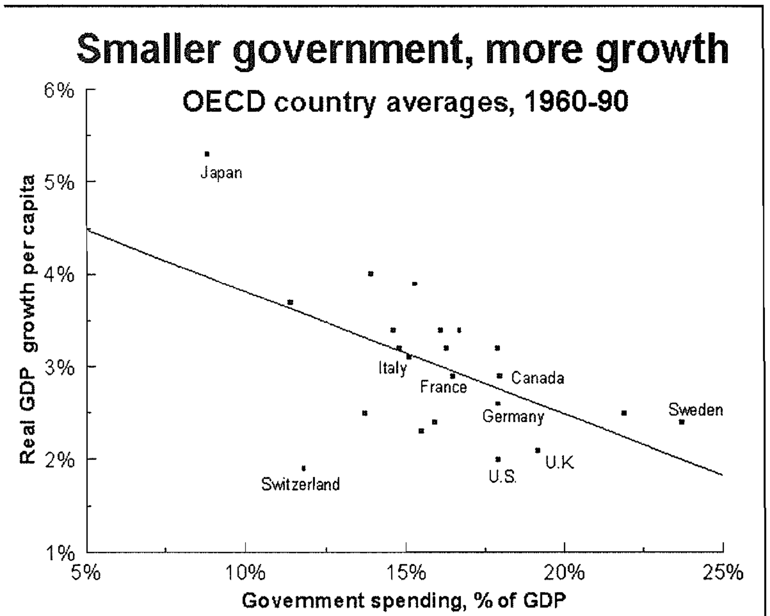
The new economics of government

Government that's too large stifles growth

The shift toward smaller government in Ontario reflects a new understanding that letting government grow too large cuts economic growth.

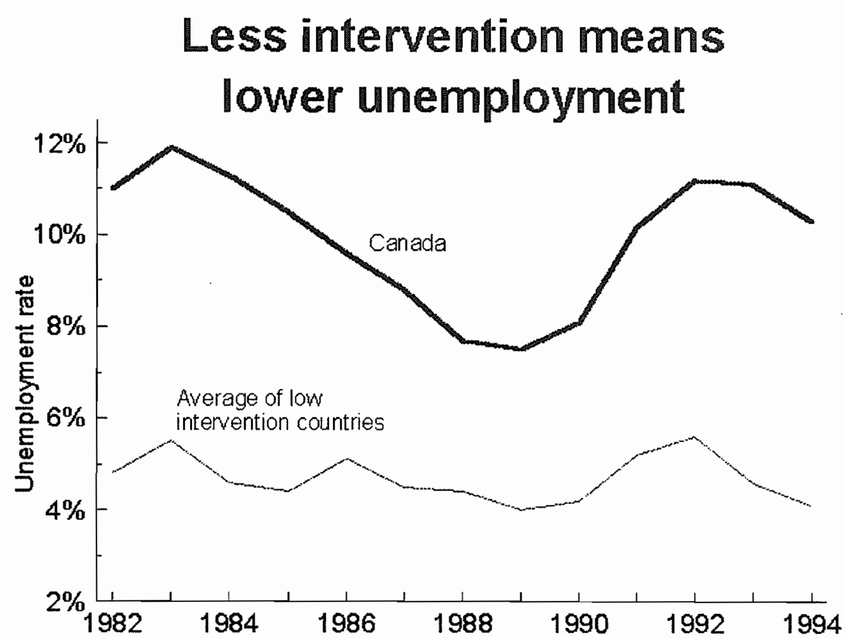
The growth of government into areas of questionable value leads to high spending levels and taxpayer resistance. There is now a worldwide movement to find savings in government operations and redirect resources back into the private sector.

Increasing economic evidence supports this direction. In one study, covering more than 100 countries, 11 research institutes around the world measured the level and change in government economic intervention in each country.[1]



An index was constructed based on such indicators as the size of government, marginal tax rates, and degree of government intervention in the economy. The study found that smaller government presence in the economy was closely associated with stronger economic performance.

As well, unemployment rates are lower in countries with lower intervention and more "economic freedom" as defined by the study.



Other research supports the notion that too much government spending can hamper growth. A recent historical study[2] looked at the impact of the growth in public spending in industrialized countries.

The strongest performers in social and economic terms were not those with the largest government presence in the economy. On the contrary, economies with the smallest increases in public spending since 1960 are more innovative and efficient than those where spending grew faster. One reason appears to be that those countries have not had to increase taxes as steeply to pay for the growth of government.

These findings strongly suggest that a major task of government in the 1990s is to focus on the core services that taxpayers value most, and to stop delivering those that add little or no value.

Potential for cost savings

Questions about the size of government are necessarily linked to efficient use of resources in the public sector. Without the discipline of market forces, it is difficult to ensure that public services are delivered efficiently.

Too many activities of limited value to taxpayers

Through the late 1980s and early 1990s, government in Ontario extended its reach into activities of little value to most taxpayers. Some were outright damaging to economic growth. Ending unneeded activities and doing the rest more efficiently will save tax dollars — and open the door to a stronger economy, more jobs and lower taxes and deficits.

The evidence leads to the following conclusions:

- Reducing government's share of the economy increases economic growth.
- Ending unneeded activities by government allows the private sector to create more jobs.
- Delivering core services more efficiently saves tax dollars.

Recent performance below potential

Following this prescription will help Ontario to rejoin the ranks of North America's top economic performers. Despite a well-educated workforce, central location in a rich economy and sophisticated industrial base, Ontario under-performed the rest of the continent during the 1990s. The cause can be traced to the high spending, high taxes and high deficits of previous governments.

Ontario will return to the top economic ranks

- Growth between 1990 and 1994 was the worst since the Great Depression.
- The number of people working in the province at the end of 1994 was lower than it was at the beginning of 1990. This is the only five-year period since the 1930s that this has happened.

While the early 1990s was a period of economic turbulence for all of North America, several factors deepened the impact on Ontario. As Canada's most industrialized province, Ontario faced a more difficult adjustment to increasing economic globalization.

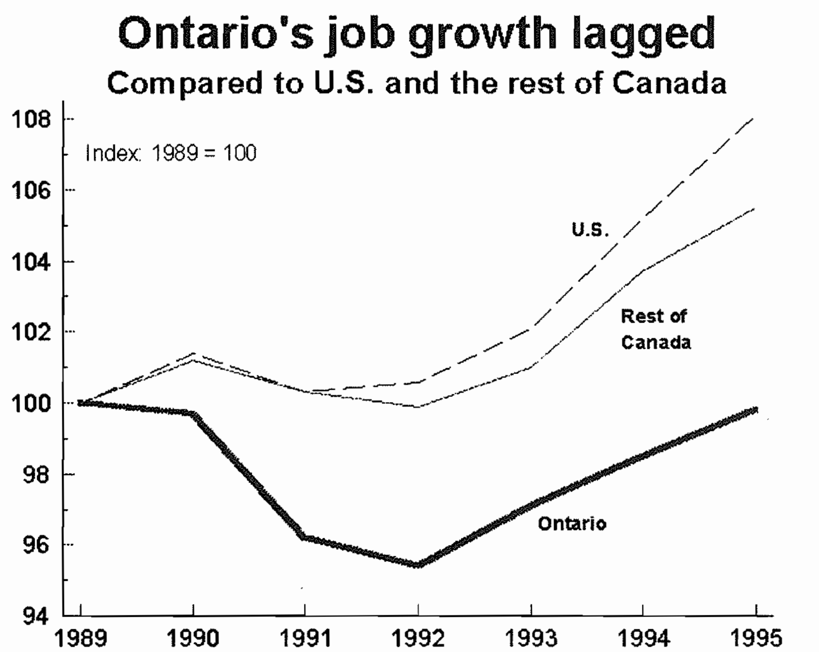
A series of provincial policy decisions exacerbated Ontario's problems. The provincial government had grown steadily in the late 1980s, boosting provincial debt and tax levels; and when the economy contracted sharply in the early 1990s, government spending did not. Its share of GDP rose, financed by high deficits and tax increases.

The resulting inflationary pressures pushed interest rates higher and made it harder for Ontario's private sector to exploit opportunities offered by newly lowered trade barriers.

Provincial income tax rates were raised repeatedly: Ontario's basic tax rate rose 7 percentage points between 1988 and 1993, compared to an average of only 2.8 percentage points for other provinces.[3] In addition to increasing the basic rate, the income surtax was raised.

At the same time, harmful labour market policies such as increases in the minimum wage threw up barriers to private-sector growth. If jobs in Ontario had grown over this period at the same rate as in the other provinces and the United States, there would be a quarter of a million more people at work.

Based on its human and physical resources, the Ontario economy has the potential to produce $25 billion a year more in economic output than it is producing today, providing many hundreds of



thousands of additional jobs and higher standards of living. Clearly, however, policies of previous governments have worked against growth by:

- allowing government spending to grow unchecked;
- increasing taxes to pay for government's growth;
- tripling the provincial debt, because tax increases alone were not enough to pay for spending; and
- imposing direct barriers to job creation.

This Budget, like other actions taken by the government in the past 11 months, draws on economic and fiscal policies that will let Ontario make use of its full potential.

Policies will let Ontario grow to its potential

Finding savings and cutting taxes

International studies show that when countries need to reduce deficits, significant cost savings in government operations prove more successful than small spending reductions over many years.

OECD governments which sharply cut their spending and deficits enjoyed a resulting boost to competitiveness, private-sector confidence and spending that completely offset the economic drag.[4]

Finding the necessary savings as soon as possible underlines the government's commitment to restoring fiscal balance. Coupling this action with tax cuts is a further signal of a dramatic change in direction. The result is a rapid improvement in private-sector confidence and spending, which shortens the time the economy takes to adjust to reduced government spending.

Moreover, cutting direct taxes on households — of which personal income taxes are the main form — is the most successful tax measure to take in concert with spending cuts, according to a recent study.

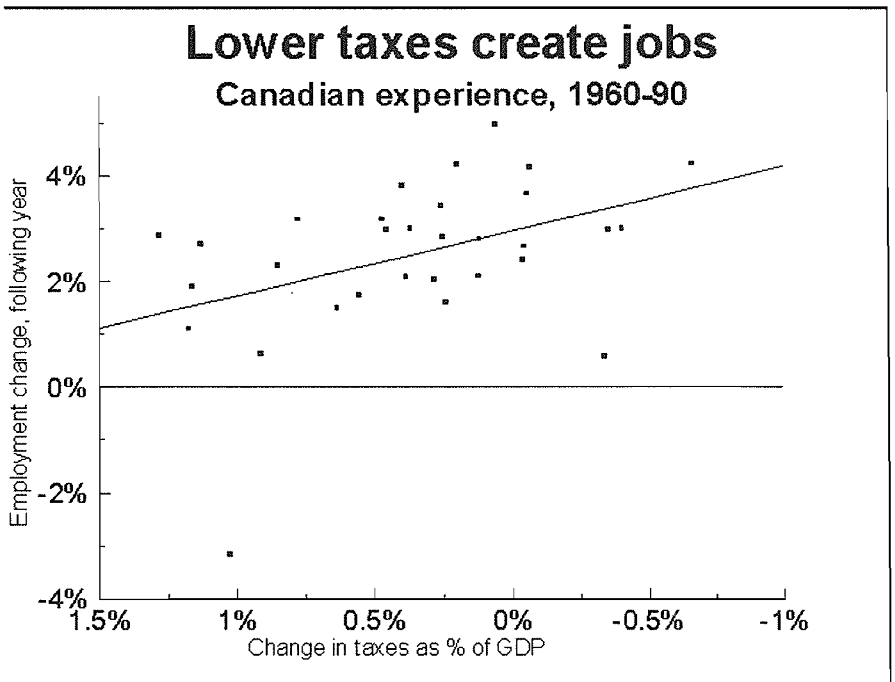
The authors of the study, which looked at the experience of 20 OECD countries in their attempts at lowering the government debt-to-GDP ratio,[5] concluded that successful debt reduction relied on finding savings at all levels, including transfer payments and direct operating expenditures. Unsuccessful attempts to reduce debt relied primarily on increases in taxes.

Jobs and economic growth through tax cuts

This Budget outlines a three-year plan to reduce personal income taxes.

Economic growth strongly linked to tax cuts

Numerous empirical studies have found that economic growth is strongly linked to tax cuts.[6] This cut in personal income taxes — the largest in Ontario's history — will give consumers more money to spend, and will stimulate investment and boost productivity to a degree unmatched by any other kind of fiscal action. An income tax cut not only increases the demand for goods and services, it also increases the economy's capacity to produce those goods and services.



A cut in personal income tax rates will help Ontario's economy and create jobs by:

- Putting more money into the hands of consumers. Ontario's recent economic growth has been driven mainly by its strong export performance. In order for suppliers of domestic goods and services to benefit, consumers must have more confidence and higher take-home pay. A tax cut gives them both, especially when coupled with measures that underline the government's commitment to ending deficits.

- Allowing consumers to pay down debt more easily. Combined with lower interest rates, this lightens debt burdens considerably and will allow people to increase consumption.
- Giving a break to small business. Hit by high taxes and over-regulation in the early 1990s, small business was forced out of its usual role of creating jobs. Cutting taxes gives entrepreneurs more incentive and more after-tax dollars to reinvest in their businesses.
- Encouraging highly educated workers to stay in Ontario after their training. These people will now have more reason to continue working in Ontario, building industries that can compete internationally.

Consumers, businesses, workers will all benefit from tax cut and new jobs

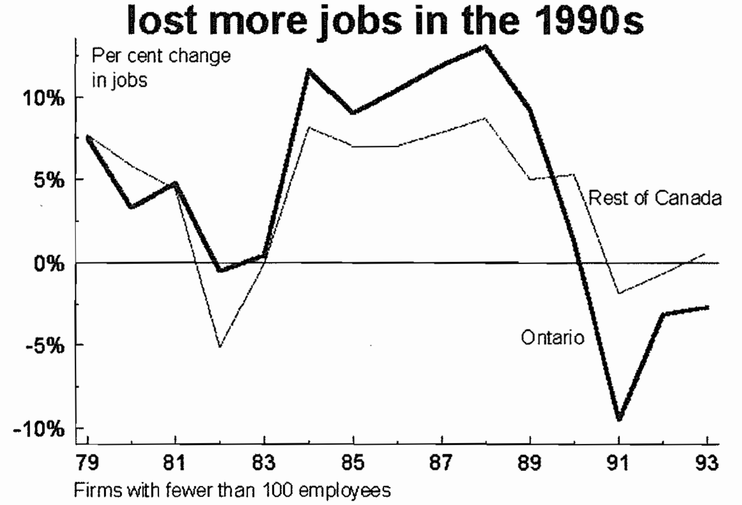
Benefits for small business

Small business drove job creation in the 1980s, but short-sighted government policies kept this important sector from playing its usual role in the early 1990s.

Throughout the 1980s, small businesses grew faster in Ontario than in the rest of Canada, but this situation was reversed in the recession of the early 1990s.

Within Ontario, the performance of small firms compared to large firms suffered a reversal. In the recession in 1991 and 1992, small business employment fell more than overall employment in percentage terms. A series of Ontario government measures

Ontario's small employers lost more jobs in the 1990s



particularly hurt this sector: the new Employer Health Tax, higher personal income taxes, new corporate filing fees, and higher minimum wage rates.

In sharp contrast, between 1985 and 1989, 790,000 of the 982,000 net new jobs created in Ontario were in firms with fewer than 100 employees. Even during a deep recession in the 1981 to 1984 period, when employment in large firms dropped by 130,000 jobs, employment rose by 193,000 in the small firms.

Entrepreneurs will be more willing to start or expand firms

Small businesses often depend on the reinvested earnings of their owners for capital, so lower taxes will contribute both to increased investment in existing businesses and to more new business formation. There will be an increased willingness by entrepreneurs to innovate and take risks, because of the prospect of keeping a larger share of earnings.

The cut in personal income tax, combined with other measures to improve labour market conditions, will help to return small business to its role of leading job creation.

Benefits for skilled workers

Before this tax cut, Ontario's marginal personal income tax rate for incomes over $67,000 a year was second only to British Columbia's among Canadian provinces, and higher than that of any U.S. state.

High income-earners tend to be those in whose education the public has invested the most. When they leave, the economy loses the benefits of their skills and government may lose the tax dollars it would otherwise get as a return on the investment in their education. A tax cut will encourage more of these workers to stay in Ontario and return the benefits of their training. It will also make it easier for businesses here to attract workers with scarce skills from outside Ontario.

Benefits for competitiveness

Higher income taxes can also increase labour costs, since workers must raise their money wages if they are to maintain their take-home pay. Higher labour costs make the economy less competitive, ultimately costing jobs. Empirical studies using U.S. data have found that employers faced higher labour costs in states with higher tax burdens.[7] A Canadian study also found that, in unionized sectors, employers end up paying a significant proportion of tax increases through higher wages.[8]

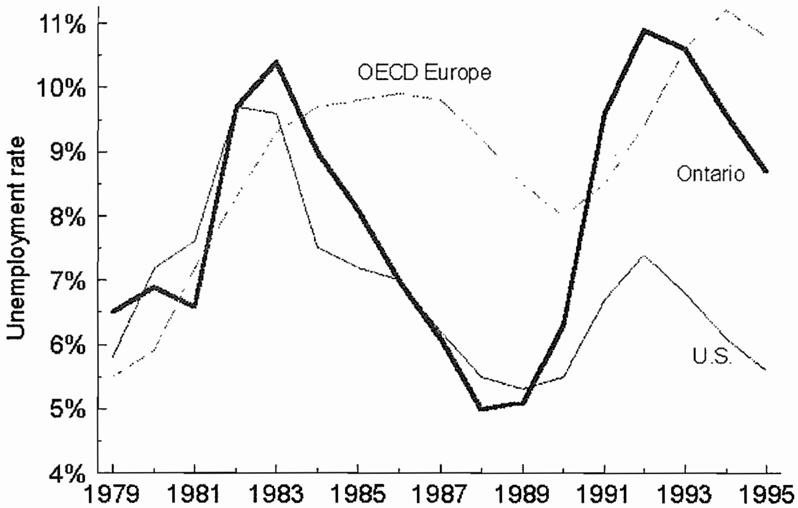
Strengthening the tax cut's benefits

While an income tax reduction is the single most effective action to boost both near-term job creation and long-term productivity growth, its impact is complemented and strengthened by other measures the government is taking.

Lifting the barriers to job creation

In the late 1980s and early 1990s, the Ontario government introduced several policies that increased the cost of hiring workers and made the labour market less flexible. In Europe, where such policies have been in place longer, the result has been persistently high unemployment rates compared to less restrictive economies. A similar impact on Ontario is evident from the gap which opened between U.S. and Ontario unemployment rates in the early 1990s. In the past several months, the Ontario government has moved to eliminate these barriers.

Higher jobless rates in Europe and, since 1990, in Ontario



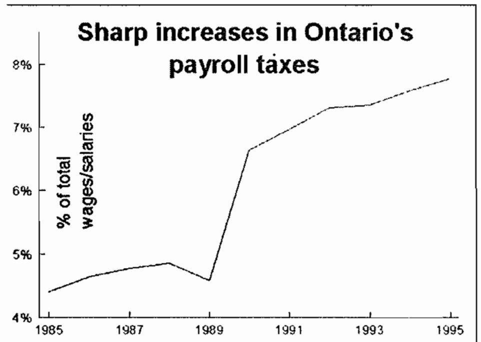
Bill 7 represented the first step in restoring a balance between unions and employers, making Ontario a more attractive location for businesses to invest and create jobs.[9]

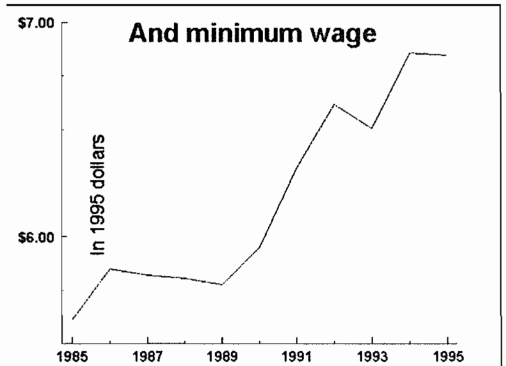
Rolling back payroll taxes to create more jobs

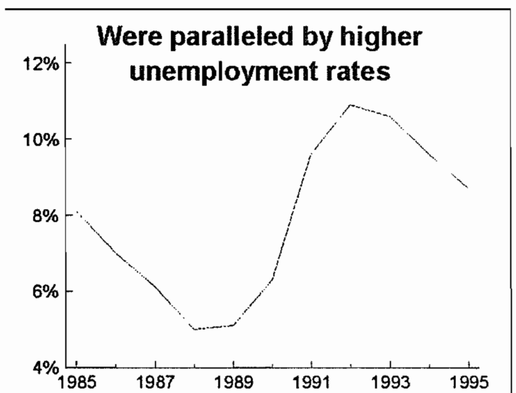
Payroll taxes rose steeply over the past few years. These are particularly harmful to employment, as they are a direct tax on jobs. The increases came mainly from the federal level, but a previous Ontario government also contributed by introducing the Employer Health payroll tax at the beginning of 1990. In this budget, the government is eliminating the tax on the first $400,000 of payroll.

Increases in the minimum wage, which rose 19 per cent in real terms between 1989 and 1994 while average real wages stayed flat, also cost jobs for those who needed them most, including young people looking for the first job that would be vital to their work force experience.[10]

Although the increases were aimed at helping the working poor, economic studies show that these are the people hurt most by it, because it prevents many of them from getting jobs. Combined with high social assistance benefits, this increases welfare dependence and keeps people out of the workforce longer.







A study that compared the impact of social assistance benefits in different provinces found that higher benefits were associated with lower labour force participation rates.[11]

High welfare benefits make social assistance recipients better off financially, in many cases, than if they were working. For example, before the social assistance rate reductions implemented in 1995, a single parent with two children would have needed a full-time job paying more than $10 an hour to earn the equivalent of what she or he received from social assistance.

The figure would have been even higher when other cash and in-kind benefits from the provincial and federal governments were taken into account. These were serious disincentives to work.

In addition to other reform measures aimed at breaking the cycle of welfare dependence, the province has increased the level of earnings recipients who work part-time can keep without penalty, allowing them to earn back the difference between the old and new welfare benefit rates.

Other benefits for the labour force

Lower tax rates and other government measures outlined in this Budget will provide people with an increased incentive to join the pool of those available to work — just as high taxes and other disincentives can discourage participation in the labour force.

Steady growth in the labour force participation rate[12] in Ontario was broken in 1990. The decline was much larger than can be explained by the recession, and it was greater in Ontario than in the rest of Canada.

Labour force participation is important even when unemployment is high. There are always new jobs being created, but some are filled slowly because the right candidate can't be found immediately. The larger the pool of people available to work, the faster jobs are created.

When taxes on both payrolls and earnings are high, workers and employers have an incentive to go "underground." This may explain some of the drop in labour force participation since 1990, a possibility supported by a strong statistical link between higher tax levels and greater use of cash in the economy,[13] particularly during this period. Reducing personal income and payroll taxes should help to reverse or slow this movement. So will the government's emphasis on finding cost savings and making its operations more efficient: Surveys show that a perception that governments waste tax dollars is a prime motivation for tax evasion.[14]

Policies that discourage people from looking for work tend to raise the wage structure and further discourage job creation. The non-inflationary unemployment rate becomes higher, and the Bank of Canada is more likely to raise interest rates.[15]

Balancing the books to build confidence

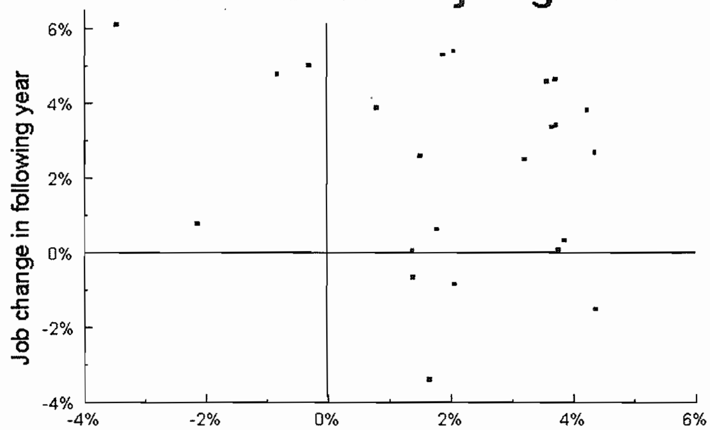
Ontario's job growth significantly underperformed the rest of Canada in the early 1990s, in spite of large increases in deficit-financed government spending. Some would claim that employment would have been even weaker without this government spending.

However, new research shows the opposite — that high spending hurts jobs.[16] This is because people have come to realize that government deficit spending today usually translates into higher taxes in future.

They therefore reduce spending to offset much of the increase in the government's deficit. It is likely that business investors also fear higher taxes in future, putting a damper on their investment plans. The conclusion is that an increase in government spending may reduce consumer spending and business investment, worsening a recession.

No link seen between spending, job creation

High government spending is not needed for job growth



Ontario data, 1973-95

Ontario's own historical experience also refutes the notion that higher government spending creates jobs. Each data point in the figure below represents the change in real spending on goods and services by all levels of government in a year and total job growth in Ontario in the following year.

This historical experience shows that there is no statistical correlation between government spending and changes in employment. In four cases, reduced government spending in Ontario was followed by reasonably strong employment growth; just as often, increased spending was followed by job losses. Growth in government spending is clearly not vital to job creation. Other factors, such as lower interest rates, tax cuts, or greater consumer confidence, can allow the economy to expand strongly in spite of weak or negative government spending growth.

Deficit reduction boosts confidence and growth

Canadian real interest rates have been high by historical standards since 1988. Initially, the reason was the Bank of Canada's tight monetary policy, aimed at lowering inflation. The lasting benefits of low inflation accrue through lower interest rates only over the long run, as investors become confident that inflation is under control.

In the case of Canada, increased investor confidence has been delayed by persistent government deficits, which called into question the sustainability of low inflation.

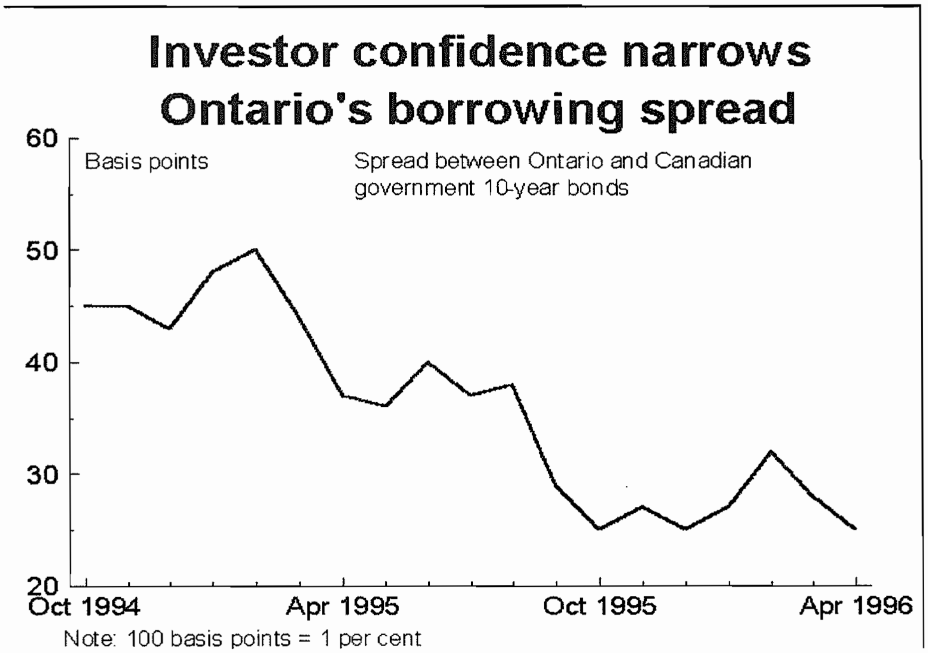
Bank of Canada Governor Gordon Thiessen has noted that over the past year governments in Canada have taken major steps in sorting out their budgetary and debt problems, which has helped to bring down interest rates.[17]

Canadian treasury bill interest rates have recently been lower than those in the United States, the first time since 1983 that this has occurred for more than a few days at a time.

Commentators agree that this is due in large part to higher international confidence in the performance of Canadian governments, including the Ontario Government. As the largest province, Ontario's fiscal performance is especially important to international investors.

That same investor confidence appears to have narrowed the spread between the yields on Ontario Government and federal government bonds in both Canada and the United States. The premium of Ontario over Canadian and U.S. government borrowing rates was recently at its lowest level since 1990, when Ontario had a AAA debt rating.

Progress on deficit reduction is clearly boosting international confidence, bolstering the Canadian dollar. The measures Ontario is taking will allow it to grow more strongly without inflationary pressures.



Interest-rate fall of 1 per cent creates 25,000 jobs

These factors will allow the Bank of Canada to ensure that interest rates remain low. This in turn will reinforce economic growth in Ontario. Short-term interest rates have fallen about 3 percentage points compared to a year ago. Each sustained percentage point reduction in interest rates creates about 25,000 jobs in Ontario and boosts GDP by about 1 per cent after two years.

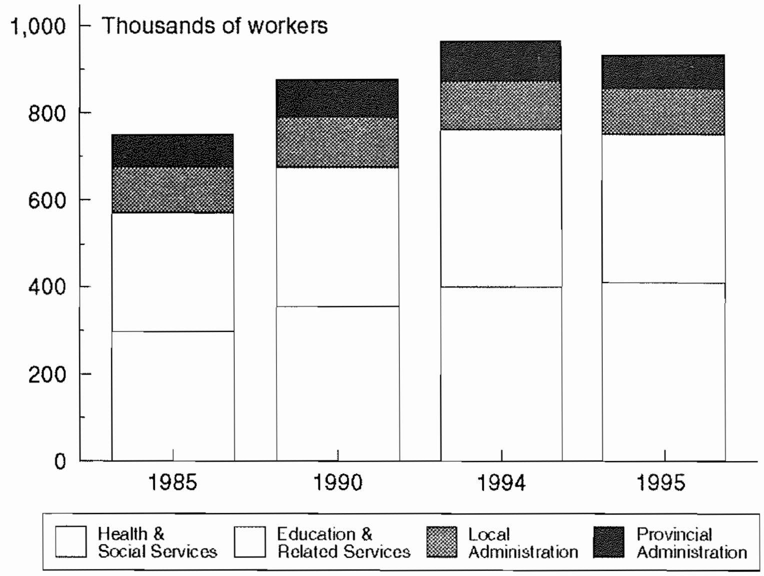
The time to reshape government is now

Technology is changing government fundamentally, just as it is changing all other sectors in the economy. New technologies make it possible for governments to provide services in new and more efficient ways, such as "one-stop shopping" for business registrations. They allow various public services to be priced more realistically and fairly than they have been in the past. And they create entirely new demands for government goods and services.

At a more fundamental level, technological change is redefining the nature of public goods, allowing certain goods and services that were previously provided by government to be produced by the private sector. Demographic shifts should also push government to re-think the services it provides.

Ontario has been slow in addressing the need for government restructuring created by technological and demographic changes. One measure of this is employment. The Ontario public sector accounted for 39 per cent of total job growth in Ontario between 1985 and 1994, increasing its share of total employment from 16 per cent to 19 per cent.

Employment in Ontario's broader public sector



The costs and complexities of government have gone up sharply since the early 1980s, but the benefits to taxpayers have not. Bringing costs into line with benefits will save tax dollars and make the economy work better.

There is widespread agreement that governments in Canada should and could be smaller and more effective, so that core services are protected.

Must act quickly to restructure public sector

The government's approach to restructuring is based on the need to act quickly, to send a strong signal that will increase business and consumer confidence. Like other jurisdictions, it recognizes the need to address its own, as well as transfer partners', spending. And it aims to find savings in order to provide quality services in line with what Ontarians need now and in future.

Since coming to office, the government has announced that it will find savings throughout its operations. It is also changing the way government organizes its activities, by requiring ministries to draw up business plans that explain how priorities will be met.

Restructuring also involves asking whether programs and services could be delivered better and more cheaply by the private sector, or by another level of government. For those services which government retains, restructuring involves finding greater efficiencies through better technology, better organization, and plain common sense.

Private businesses, like other taxpayers, will benefit directly from these improvements, as well as from the overall reduction in costs that follow from smaller government.

Policies that support growth

Ontario's government, in this budget and its other measures, has introduced a set of policies that aims to promote economic growth and job creation. The speed with which it has acted on several fronts responded to a deterioration in the province's fiscal and economic situation that called for immediate action. It also reflected the way in which the policy measures are designed to reinforce one another, amplifying the gains that each might have achieved alone.

It is the impact of everything Ontario is doing — cutting taxes, balancing its books, and reshaping government — that together will pay off with strong economic growth and job creation.

Notes:

1 *Economic Freedom of the World, 1975-1995*, published in Canada by the Fraser Institute (Vancouver, 1996).

2 V. Tanzi and L. Schuknecht,"The Growth of Government and the Reform of the State in Industrial Countries," (IMF Working Paper, December 1995).

3 Not including Quebec. The nature of the tax system in Quebec, which does not take part in the federal tax collection agreement, makes comparison with that province difficult.

4 Francesco Giavazzi and Marco Pagano, "Non-Keynesian Effects of Fiscal Policy Changes: International Evidence and the Swedish Experience." (Cambridge, Mass: National Bureau of Economic Research Working Paper No. 5332, November 1995).

5 Alberto Alesina and Roberto Perotti, "Fiscal Expansions and Adjustments in OECD Countries," *Economic Policy*, October 1995.

6 This literature is surveyed by Karl Habermeier and Steven Symansky, "Fiscal Policy and Economic Growth," (International Monetary Fund Occasional Paper No. 125, 1995).

7 Martin Feldstein and Marian Vaillant, "Can State Taxes Redistribute Income?" (National Bureau of Economic Research Working Paper No. 4785, 1994); and Sally Wallace, "The Effects of State Income Tax Differentials on Wages," (November 1993), 23 *Regional Science and Urban Economics* 611-628.

8 Douglas Auld and David Wilton, "The Impact of Progressive Income Tax Rates on Canadian Negotiated Wage Rates" (May 1988), 21 *Canadian Journal of Economics* pp. 279-284.

9 For example, Peter Cramton and Joseph Tracy, in a study called "The Use of Replacement Workers in Union Contract Negotiations" (National Bureau of Economic Research Working Paper No. 5106) discuss the impact of such measures on labour costs.

10 Michael Shannon and Charles Beach, "Distributional Employment Effects of the Ontario Minimum Wage Proposals." *Canadian Public Policy*, 1995, No. 3.

11 D. Allen, "Welfare and the Family: The Canadian Experience," *Journal of Labour Economics,* January 1993, pp. S201-S223.

12 Defined as the percentage of the population either working or actively looking for work.

13 Peter S. Spiro, "Estimating the Underground Economy: A Critical Evaluation of the Monetary Approach," *Canadian Tax Journal* 42 (1994 No. 4) pp. 1059-1081.

14 D. Francis, "High taxes turn Canadians into cheats," *Financial Post*, June 23, 1995, p. 19.

15 Stephen S. Poloz, "The Causes of Unemployment in Canada," (Bank of Canada Working Paper 94-11, November 1994).

16 Paul R. Masson, Tamim Bayoumi, and Hossein Samiei, "Saving Behaviour in Industrial and Developing Countries," Staff Studies for the *World Economic Outlook* (Washington: International Monetary Fund, 1995).

17 Bank of Canada, *1995 Annual Report*, February 29, 1996, p. 6.

Open and Accountable Government

Open and Accountable Government

In early November 1995, after three months of study, the Ontario Financial Review Commission presented Finance Minister Ernie Eves with 55 recommendations to make government in Ontario more open and accountable.

As the Commission said in its report, *Beyond the numbers: A new financial management and accountability framework for Ontario*:

The Commission believes that competent and hard-working public servants throughout the system are trying to find more efficient ways of organizing and doing their work, and are trying to build on what they have learned to improve performance in future.

To improve results, and in line with its mandate, the Commission made recommendations in three broad areas: planning, financial reporting and accounting, and Crown agencies.

Quick action on recommendations

Three weeks after receiving the Commission's final report, the government announced in the November Fiscal and Economic Statement that it was acting on several recommendations immediately. As a result, it would:

- use the same reporting standards for all of its budgetary reports and updates, the standards set by the Public Sector Accounting and Auditing Board (PSAAB);
- adopt a prudent planning framework, using cautious forecasting, to ensure that deficit targets were met;
- set out longer-term deficit and debt-reduction targets;
- establish a contingency fund to cushion against unforeseen economic changes, starting with the 1996 Budget.

The November Statement promised that this Budget would address the remainder of the Commission's recommendations.

The government has accepted 52 recommendations, of which it has already implemented 25, and is working on implementing 27 others. In three instances, legislative change is needed for implementation.

A listing of each recommendation follows. The government's response is indicated in italic type after each recommendation.

Recommendations and responses

I. Planning

A. Framework for fiscal planning

I.1 That government adopt a prudent planning framework which:

- encourages cautious forecasting and better expenditure planning;
- monitors results for the purpose of taking any corrective action that is needed; and
- includes provisions for unexpected changes in its economic outlook

in order to ensure that it meets or exceeds its deficit and debt reduction targets in the most effective and efficient way.

The government has taken immediate action to create a prudent fiscal planning framework:

- *For planning and financial reporting purposes, the Province has adopted the guidelines set out by the Public Sector Accounting and Auditing Board (PSAAB) for reporting in the Budget and Public Accounts.*
- *Starting with this Budget, a reserve is included in the Provincial deficit outlook to accommodate negative unforeseen changes in economic conditions which may affect the fiscal plan.*
- *As well, the fiscal plan is based on prudent economic assumptions to provide additional assurance that deficit targets will be met.*

I.2 That government present a three-year business plan as part of its annual Budget. This business plan should:

- outline goals and priorities in enough detail that ministries can use it as a basis for their business planning, as outlined in Recommendation I.16 below;
- explain government's targets for effective and efficient performance and how it will measure progress towards them;
- report on progress toward established goals and explain the reasons for changes from its previous plan; and
- outline the revenue, expenditure and economic projections for the upcoming year and the following two years.

This budget contains a five-year plan to balance the budget. It also outlines specific fiscal performance measures, a three-year economic projection and a two-year fiscal forecast. It gives interim results for the fiscal year just ended. It provides a 10-year historical performance comparison of key economic and fiscal data.

The government will report in future budgets on progress toward its plan.

B. Better fiscal management and revenue forecasting

I.3 That government return to the practice of tabling its Budget, which would now include a business plan, before the start of the fiscal year.

The Commission suggested a thorough review — including examination by a Legislative committee — of measures to speed approval of spending authority. Government will consider the legislative committee's recommendations on this important goal, following the review.

I.4 That government provide, in its annual Budget, deficit targets (and underlying fiscal forecasts) for the upcoming and following two years, and that it measure itself against these targets in the subsequent Budget and other reports to the people of Ontario.

The 1995 Fiscal and Economic Statement set out annual deficit targets to balance the budget by the year 2000-01. This budget provides annual deficit targets for each of the next five years as well as a two-year forecast of Provincial revenues and expenditures.

Fiscal projections beyond this time horizon are subject to significant variation due to changes in the economy and other external factors. The government will continue to develop its capacity to provide reliable and meaningful fiscal forecasts for future years.

The government will report annually in the Budget and measure itself against planned deficit targets.

I.5 That government provide in its annual Budget a longer term view of its debt reduction targets, and that it measure and report on its progress towards those targets in its subsequent Budget and other reports.

In the 1995 Fiscal and Economic Statement, the government outlined a realistic and workable Balanced Budget Plan to eliminate the deficit by the year 2000-01. At that time, the government clearly outlined the debt levels associated with this deficit reduction plan.

Future budgets will report on debt reduction through the Ontario Opportunities Fund created in this budget.

I.6 That the Budget contain commentary on socio-economic trends that are likely to have a significant longer-term impact on the Province's fiscal health, and outline measures that may be needed to deal with those.

Budget paper B, Jobs and Growth, and paper D, Economic Policies for Jobs and Growth, discuss important trends affecting Ontario's fiscal and economic health.

I.7 That government's fiscal forecast be biased towards the cautious end of the range of forecasts that are consistent with its economic forecast.

The revenue forecast is deliberately cautious. The outlooks for individual tax revenues reflect that caution. In the case of the provincial income tax outlook, the forecast is developed using cautious assumptions (e.g., slow growth in average tax rate, strong RRSP growth).

I.8 That the Budget set out a contingency fund exclusively to cushion fiscal targets against the impact of negative unforeseen economic changes. Government should apply any part of the fund which has not been spent by year-end to reducing the deficit and debt.

Starting in 1996-97, the Provincial deficit will be calculated to include a reserve to protect against the impacts of unforeseen and adverse economic changes on the fiscal plan. Any unused funds in the reserve at year-end would be used to reduce the deficit and debt.

I.9 That, where there is disagreement or uncertainty over the methodology for calculating future federal transfer payments, Ontario adopt for the purposes of fiscal planning the most prudent methodology.

Where changes to federal payments are expected in the future, the Province will assume a prudent forecast from among the range of options available to the federal government.

I.10 That the Ministry of Finance each year collect and evaluate a list of contingent expenditures and other latent costs throughout government that might increase spending.

The government has adopted recommended guidelines for setting up provisions for costs resulting from known activities. It is reviewing how best to approach possible costs of a more contingent nature, as addressed by this recommendation.

Ontario is working with other governments in Canada and the accounting/auditing profession to develop accounting standards specifically for such costs.

I.11 That government use significant unanticipated revenues to reduce the deficit and debt, and that this be clearly disclosed in financial reporting.

As part of the government's Balanced Budget Plan, any unanticipated revenues or unused reserves, beyond what is required to meet the annual deficit target, will be incorporated into the government's overall strategy to balance the budget by the year 2000-01. These transactions would be fully disclosed and reported in the Budget.

I.12 That the Ministry of Finance focus its efforts to improve its revenue forecast on getting better information about its main sources of revenue: personal income tax, corporations tax and retail sales tax.

In developing new computer systems for revenue collection, the Ministry will also take into account the needs of revenue forecasters to have access to timely data on the economy's performance.

I.13 That the Ministry of Finance take steps to create a fuller and more open system of personal income-tax information sharing with the federal government, and pursue as a matter of urgency its continuing requests for monthly information on source deductions.

The Ministry has successfully obtained additional provincial income tax information from the federal government, including information on source deductions at the federal level. Ontario Finance staff have strengthened contacts with federal forecasting staff.

I.14 That forecasts of revenues from any new non-tax initiative be supported by a prudent and realistic business plan.

Revenue forecasts from such initiatives are carefully scrutinized before being incorporated into the revenue outlook, to ensure that they are based on sound and prudent assumptions consistent with the overall cautious approach used in the fiscal plan.

C. Business plans and performance measurement

I.15 That the government adopt an integrated framework for ministries' activities that better links planning, monitoring, reporting and evaluation to improve the management and accountability processes.

The government has adopted a business planning approach which ensures that ministries undertake a rigorous review of all activities. The initial results of the business planning process, including ministry core businesses and key program reductions for 1996-97 and 1997-98, were made public on April 11.

I.16 That, as part of the framework, each ministry:

– prepare a three-year business plan that reflects the government's priorities;

- maintain the three-year outlook by updating its plan annually before the start of each fiscal year;
- specifically address in the plan the measurement of progress towards its stated goals and reasons for changes to its previous plan;
- outline in the plan what it believes to be suitable performance measures and targets at the ministry and program level, subject to review by a Legislative committee;
- include detailed spending and, if appropriate, revenue plans for the upcoming fiscal year and estimates of these for the following two years;
- explain in its plan the delivery structure to be used, including the roles, relationships and accountability of all entities that provide service on behalf of the ministry, and provide justification for this structure; and
- provide semi-annual summaries of progress for ongoing monitoring and appropriate action to improve performance.

All ministries have prepared business plans which are based on the government's priorities. These plans will be updated annually.

All ministry plans establish core businesses, key outcomes and proposed performance measures. These will be made available to the Legislature.

Ministry plans also contain detailed spending plans for the coming year, along with directions for the medium term. Ministry plans will enable the government to establish clear linkages between core businesses, key outcomes, ministry resources and administrative structures.

Ministries will engage in consultation to help determine appropriate accountability and performance measures, including specific quantitative indicators.

I.17 That government initiate a system of recognition and rewards in the public service to motivate effective and efficient behaviour, and remove current disincentives to such behaviour.

The government accepts this recommendation in principle, within the goal of making government more effective and efficient, and is looking at options for such a system.

I.18 That the requirement for business plans, as outlined in this report, at the government, ministry, and agency level, be legislated.

The government agrees with the intent of this recommendation and has proceeded to develop business plans which will be shared publicly after the release of the budget.

Under section 3 of the Management Board of Cabinet Act and section 6 of the Treasury Board Act, Management Board of Cabinet has required ministries to complete business plans.

I.19 That government have a review carried out with the goal of ending the current Estimates process, which is ineffective. This review, by either a special task force of the Legislature or an existing committee, should focus on an earlier and more useful debate of spending authority.

The government will work with the Legislature towards improving its ability to effectively review ministries' spending authorities.

I.20 That the special review consider the following additional suggestions from the Commission:

- an appropriate committee of the Legislature, which could be a renamed and re-defined existing committee, should be given the task of reviewing each ministry business plan before the start of the three-year planning cycle it covers;
- the committee should conduct reviews on a three-year rotational cycle (that is, look each year at the plans of one-third of ministries), with attention to past and planned outputs and outcomes, and be able to recommend changes to plans;
- in looking at each plan, the committee should be able to consult with the appropriate Minister and Deputy Minister, the Provincial Auditor, and others as needed;
- the committee should look at the ministry's proposed measures and targets for performance to make sure they are appropriate, well-designed and rigorous;
- committee staff should then monitor results on a semi-annual basis, and the committee should be able to require the Minister and/or ministry staff to appear before it as required; and
- spending authority should be secured immediately after the tabling of the Budget.

The government will work with the Legislature on these proposals. The final decision on this recommendation rests with the Legislature.

II. Financial reporting and accounting

A. Accounting basis and system

II.1 That government adopt PSAAB standards for the Budget, related spending authority and updates on the fiscal situation.

The government adopted this recommendation on November 29, 1995 and continues to use PSAAB standards in this budget. It began reporting the fiscal updates on a PSAAB basis with the Third Quarter Ontario Finances for 1995-96.

Adopting PSAAB standards for spending authority as recommended by the Commission requires a further investment in financial systems and training and will require legislative change. The government is working towards adopting these changes over the next two fiscal years. As a transitional measure, a reconciliation of PSAAB to modified cash expenditures will be provided, at a Ministry level, in the Estimates for fiscal 1996-97.

II.2 That government adopt one financial management and reporting system for all ministries, in place of the incompatible systems currently in use.

The government accepts this recommendation in principle and will set central standards for integrated financial reporting. As part of its review of internal administration, it will identify ways of achieving the goals outlined by the Commission.

B. Financial reporting

II.3 That government produce an annual report consisting of:

- financial statements similar to those currently produced as part of the Public Accounts, with the addition of a column showing the Budget plan; and
- a management discussion and analysis that includes financial and economic highlights and reports on performance against the goals set in the Budget and business plan at the start of the year.

A news release summarizing the annual report should accompany its publication.

The government will publish its Annual Report later this year incorporating the additional material requested by the Commission.

II.4 That government's annual report and the Public Accounts be presented no later than 120 days after the year end, but preferably within 90 days.

The government accepts this recommendation in principle and will work over the next two years toward meeting the outlined 120-day timeframe. Achievement of this goal depends on the introduction of the financial system described in response to recommendation II.2. It will aim to report results within the 90-day timeframe as financial systems are further upgraded.

II.5 That government produce quarterly financial statements, on the PSAAB basis, containing for each quarter:

– an updated fiscal forecast for the year, compared to the Budget plan for the year; and

– actual results for the current year to date, compared to year-to-date actual figures for the prior year.

The second quarter should also contain a revised economic forecast for the year and outline its impact on the year's fiscal forecast, and should provide an update of the economic forecast for the next two years.

The government has accepted this recommendation and prepared the 1995-96 Third Quarter Ontario Finances on a PSAAB basis. The quarterly financial updates take into account changes in economic conditions which affect the revenue projections.

Proposed changes in financial systems referred to in recommendation II.2 would permit the timely reporting of year-to-date numbers on a PSAAB basis, which is not possible now.

Ontario Hydro and Workers' Compensation Board

II.6 That government clarify the ownership of Ontario Hydro in order to end confusion in financial reporting.

The government accepts this recommendation in principle.

II.7 That government require the Workers' Compensation Board (WCB) to draw up, within the next year, a workable and credible plan to eliminate its existing unfunded liability. This plan should outline specific benchmarks at regular intervals; and the government should monitor the plan's progress to make sure corrective action is taken if it falls short of those benchmarks.

The Honourable Cam Jackson, Minister Without Portfolio Responsible for Workers' Compensation Reform, is currently reviewing the system.

II.8 That the present disclosure of the Workers' Compensation Board in the notes to the financial statements in the Public Accounts be improved by expanding it to include summary disclosure of the Board's balance sheet and its statement of operations and unfunded liability.

The government will do so, beginning with its financial statements in the 1995-96 Public Accounts.

II.9 That government review the current governance structure of the Workers' Compensation Board with a view to making it financially accountable, more effective, and better able to provide leadership.

Bill 15, which received Royal Assent on December 14, 1995, introduced a new multi-stakeholder governance structure to the WCB, intended to provide more effective leadership for the organization. As well, the Bill 15 reforms place a statutory duty on the Board of Directors to act in a financially responsible and accountable manner.

II.10 That the investment practices of the Workers' Compensation Board be reviewed independently to assess whether return on investments is appropriate to its long-term goals.

Bill 15 amended the Workers' Compensation Act such that the Memorandum of Understanding (MOU) between the Minister of Labour and the WCB will now require the WCB to provide the Minister of Labour, on an annual basis, with a five-year strategic plan, including a statement of investment policies and goals. On receiving this statement, the Ministry of Labour will seek Ministry of Finance advice on Board investment policies and goals.

C. Accounting issues

II.11 That, in absence of a PSAAB guideline in a specific area, government follow, in order of authority and depending on availability:

- accepted public-sector practice;
- generally accepted accounting principles in the Handbook of The Canadian Institute of Chartered Accountants (CICA);
- guidance from the CICA's Emerging Issues Committee; or
- accepted private-sector practice in the area.

Accepted.

II.12 That government continue its accounting treatment of capital assets, which is generally to expense all spending on assets in the year they are bought or built, and follow those practices in the Budget and quarterly updates until PSAAB standards deal with capital assets. If and when PSAAB standards for capital assets are issued, government should adopt them.

The government will continue its current treatment of capital assets, as recommended, and will work with PSAAB to develop appropriate standards in this area.

II.13 That, when reporting the impact of restructuring that involves reducing staff, government follow the guidance of the Emerging Issues Committee of The Canadian Institute of Chartered Accountants.

The government accepts this recommendation for 1995-96 and future fiscal years. It has accounted for the costs of decisions made during 1995-96 following the standards outlined by the Emerging Issues Committee.

II.14 That government recognize all expenditures, including those related to downsizing or asset write-offs, in arriving at the annual deficit. It may disclose separately these and similar non-recurring costs.

The government accepts this recommendation and has accordingly accounted for these transactions in the preparation of the Budget, mid-term forecast and interim numbers for the fiscal year ending March 31, 1996.

II.15 That the proceeds of asset sales or other transactions outside the normal course of business be included in the reporting of government's annual deficit and disclosed separately from ongoing revenues.

Accepted.

III. Crown agencies

A. Service delivery

III.1 That government develop a management framework, based on the one outlined in the OFRC report, to determine which type of organization will deliver services most effectively and efficiently. This framework should specifically address the accountability issues that follow from any special powers the particular organization is given, and require ongoing monitoring to ensure that any special powers are justified.

Government should use this framework to decide whether the structures and operations of existing organizations need to change to improve their performance.

The government has adopted a framework to guide decisions on the most appropriate organizational structure with which to deliver effective and efficient services.

The government is developing an accountability framework with elements appropriate to the organizational structure.

A review of the approach to the scheduling of agencies and associated accountabilities forms part of this work.

III.2 That when an agency is the organization used to deliver a government service, its business plans and published annual reports detail the costs and benefits of agency status. If the costs significantly outweigh the benefits over time, then government should conduct the activities through a ministry instead.

The Government accepts both elements of this recommendation to strengthen its agencies' reporting obligations.

Linkages will also be built into the business planning and review processes to ensure that the cost-benefits of services provided through agencies are reviewed as part of the Estimates review. All operational agencies continue to be subject to 5-year sunset reviews.

III.3 That, where there are no overriding public-policy reasons for government ownership of an enterprise which could operate successfully in the private sector, the private sector carry out the activity instead.

The Government concurs with the intent of this recommendation, and integrated it into the terms of reference for its 1996-97 planning process.

All agencies are currently being reviewed to determine the relevance of their mandates, and the effectiveness and efficiency of their operations. Change will be directed, where appropriate.

III.4 That government set out an accountability framework for all Crown agencies. The framework should require that agencies produce business plans, similar to those recommended for ministries, which set appropriate targets, report on results, and require ongoing monitoring. This framework should incorporate ongoing measurement of costs and benefits of agency status, as discussed in Recommendation III.2.

The Government accepts these recommendations and commits to modifying the Accountability Framework which now governs agencies, boards and commissions to meet this intent.

B. Accounting and accountability for existing agencies

III.5 That government expense, in the year they are made, any financial contributions needed to establish or continue an enterprise's self-sustaining status.

Accepted.

III.6 That, when an agency is classed as an enterprise on the basis of financial projections, it update those projections annually.

The government accepts this recommendation and will carry out reviews of projections annually.

III.7 That government write off, at the time of its decision, its investment in any agency that it judges to be no longer self-sustaining. The agency should then be reclassified and treated as a service organization.

Accepted.

III.8 That, where an agency has both enterprise and service activities, the agency's own reporting clearly differentiate between these activities. Where it also acts as agent for government or other government agencies, the agency's financial statements should give appropriate note disclosure of its activities as an agent.

As part of the Public Accounts process, the Ministry of Finance will direct agencies to modify their reporting to reflect separately their enterprise and service activities and their activities as agents.

III.9 That, when creating a new agency, government seek to give it responsibility for activities that are either enterprise or service in nature, but not both.

The government accepts this recommendation in principle. Exception to this approach will require Management Board of Cabinet approval.

C. Recommendations specific to agencies

III.10 That the Metro Toronto Convention Centre (MTCC), which now reports as an enterprise, provide annual updates of its business plan to support that continuing status.

The Government will review MTCC's projections annually.

III.11 That updated projections and business plans use net income as defined under generally accepted accounting principles in assessing MTCC's self-sustaining status.

The government has notified MTCC that it has accepted this recommendation, and this definition is now required.

III.12 That the Province show as an expenditure in its financial statements its proposed $75 million non-repayable construction grant to MTCC when it is paid.

The $75 million provided to MTCC has been recorded as an expense in the fiscal year ending March 31, 1996.

III.13 That, when and if PSAAB adopts its proposed standards on Crown agency reporting, the Development Corporations of Ontario (DCO) be classified as a service organization.

The government accepts this recommendation in principle. After the release of the OFRC report but before PSAAB adopted its proposed standards on Crown agency reporting, the government decided to wind down the Development Corporations.

III.14 That the various regional agencies of the Ontario Development Corporations be combined and report as one entity.

As noted, the government decided to wind down these corporations.

III.15 That the Ontario Financing Authority (OFA) retain its status as an agency and that, in order to strengthen its risk-management capability, it be given greater management and administrative flexibility and add outside directors to its board.

The government accepts this recommendation in principle. The OFA is working with outside advisors to determine how best to implement the OFRC recommendations. The results will be put forward for the government's consideration in this fiscal year.

III.16 That the board of directors of the OFA set over-all goals that are in line with its status as a government agency, and ensure that its risk-management policies in all its activities, including managing the Province's debt and investment portfolios, are consistent with those goals. The OFA should also ensure that its risk-management and disclosure policies draw on the best practices of the financial community. The OFA's annual report should disclose its goals, policies and practices in detail, along with related targets, activities and performance.

The government accepts this recommendation in principle. These changes will be reviewed at the time the report referred to in III.15 is presented. Changes such as the addition of external expertise to the OFA Board, and greater organizational flexibility already addressed in III.15, will help to ensure the recommendations are met.

The OFA will continue to review its corporate plan and annual report processes to ensure clear communication of its goals, policies, performance targets and results.

III.17 That the Ontario Transportation Capital Corporation (OTCC) and government monitor regularly and assess at least annually OTCC's performance against projections to support its continuing status as a government enterprise, in view of the government's significant investment in OTCC and because of the uncertainty of OTCC's ultimate self-sustainability.

The government will review OTCC's projections annually.

III.18 That the Ontario Clean Water Agency (OCWA) show, in a detailed business plan, the measures that will be required for it to remain self-sustaining as it faces more private-sector competition in its operating activities and lessens its dependence on profits from its financing activities, which are now the source of its self-sustaining status.

The Government accepts this recommendation in principle and has already ensured that OCWA's 1996 Business Plan includes measures to maintain and enhance its self-sustaining status.

III.19 That government consider granting OCWA more management and administrative flexibility to allow it to operate more competitively.

The government is currently reviewing OCWA's mandate, roles and responsibilities. This recommendation will be considered within that context.

III.20 That the Ontario Realty Corporation (ORC), which now reports as a government enterprise, be treated as a service organization instead. It should retain its status as an agency in order to draw on outside expertise in managing the Province's real estate assets.

The government accepts the recommendation that the ORC be treated as a service organization, and has incorporated its impact into the Budget mid-term fiscal plan and interim numbers for the year ending March 31, 1996.

The government is currently reviewing ORC's status as an agency.

"The people of Ontario want to know that tomorrow will be better than today — for themselves, and for their children."