1992

Ontario Budget

Meeting Ontario's Priorities

1992 ONTARIO BUDGET

Meeting Ontario's Priorities

PRESENTED TO THE
MEMBERS OF THE LEGISLATIVE
ASSEMBLY OF ONTARIO BY
FLOYD LAUGHREN
TREASURER OF ONTARIO AND
MINISTER OF ECONOMICS
APRIL 30, 1992

General enquiries regarding policy in the *1992 Ontario Budget* should be directed to:

Ministry of Treasury and Economics
Frost Building South, Queen's Park
Toronto, Ontario M7A 1Y7
(416) 325-0333

Enquiries regarding specific measures in the *1992 Ontario Budget* should be directed to the addresses given in Budget Paper A or to the following toll-free telephone numbers:

Ontario Budget Hotline	1-800-263-7965
French Language Enquiries	1-800-668-5821
Telephone Device for the Hearing Impaired	1-800-263-7776

Copies are available free from:
Publications Ontario Bookstore
880 Bay Street, Toronto, or
Ministry of Revenue
Public Enquiry Centre
50 Grosvenor Street, Toronto

Or write:

Publications Ontario Mail Order Service
880 Bay Street, 5th Floor,
Toronto, Ontario M7A 1N8
Telephone (416) 326-5300
Toll free long distance 1-800-668-9938

Printed by the Queen's Printer for Ontario.

ISSN 0381-2332

On peut se procurer ce budget
en s'adressant au :
Ministère du Trésor et de l'Économie
Édifice Frost sud, Queen's Park
Toronto (Ontario)
M7A 1Y7
(416) 325-0333

The Cover: A.Y. Jackson, detail of Pine Island, from "Canadian Drawings - a portfolio of prints by members of the Group of Seven", 1925. Collection: Art Gallery of Ontario.

1992 ONTARIO BUDGET

TABLE OF CONTENTS

1992 Budget Summary

Fiscal Summary
($ Millions)

	Interim 1991-92	Budget Plan 1992-93	Per Cent Change
Revenue	41,350	44,925	8.6
Operating Expenditure	48,406	50,947	5.2
Operating Deficit	7,056	6,022	-
Capital Expenditure	3,885	3,900	0.4
Budgetary Requirements	10,941	9,922	-
Total Expenditure	52,291	54,847	4.9

Economic Summary
($ Billions)

	1991	1992	Per Cent Change
Gross Domestic Product			
Nominal	274	282	3.2
Real (1986 Base)	222	225	1.4
Personal Income	251	258	2.7
Unemployment rate (4th quarter, per cent)	9.6	9.5	-
CPI inflation (per cent)	4.6	2.0	-

Introduction

Mr. Speaker, I rise to present the 1992 Budget of the Province of Ontario.

For this province, the Budget is more than just a statement outlining income and spending intentions for the next 12 months. The Budget represents an opportunity to bring to life important principles that the people of this province share with one another.

Greater social equity, economic renewal, and fair and effective fiscal management go hand in hand. They cannot be separated. In this Budget we bring these goals together.

For two years our province has been in the grip of a recession. Many individuals, businesses and communities have been hurt by forces over which they have no control. Many more are concerned about their future.

And so, in this Budget, we will reaffirm our Government's commitment to the people of this province. We are addressing Ontario's immediate priorities in a way that is consistent with our principles and with a view to the long term.

The people of Ontario want to hear from their Government about how we are taking action on their priorities. Their fundamental priorities are clear. The first is jobs. The second is human services, such as health care and education. The third is keeping the deficit in check.

We are responding in this Budget.

- We are taking immediate steps to create jobs.
- We are maintaining important public services.
- And we are controlling the deficit.

This is not a quick-fix strategy. In the teeth of a tough recession, with massive changes in the global economy, we can best meet the priorities of the people of Ontario by building on the fundamental strengths of the Ontario economy.

That is why this Government is taking concrete steps to create jobs, train workers, increase business investment, and sustain the public services that mark a decent and caring society.

I am sure all Ontarians reacted with pride to the recent news that a United Nations survey ranked Canada as the best place to live in the entire world. Our province, at the heart of Canada, is indeed one of the best places in the world to live, raise a family and do business. This Government, working with all of our partners, is confident that Ontario will emerge stronger and better from these tough times with a dynamic business sector, a productive workforce and affordable human services.

I have heard from thousands of Ontarians over the last few months. In January, this Government did something different -- we opened our books to show the public the challenges we faced in developing our Budget for 1992.

We asked Ontarians to let us know their opinions. More than 16,000 people called or wrote to request copies of the pre-Budget materials published in January. I received more than 4,300 letters and submissions with advice on the Budget. My Cabinet colleagues and I met with 225 different groups. Many of my caucus colleagues held public meetings on the Budget in their ridings.

I want to thank all the people who gave us ideas and suggestions. The process has shown the value of sharing information and involving Ontarians in decisions that affect them.

The people of Ontario do not expect miracles. But they do want leadership. They want us to take action on their priorities. Above all, they want to see Ontario working.

This Budget meets Ontario's priorities.

Jobs Ontario

- We are creating three major funds to support new jobs.
- First, we are launching, in cooperation with private firms and community groups, the Jobs Ontario Training Fund. This three-year, $1.1 billion program will provide jobs and training for up to 100,000 of Ontario's long-term unemployed.
- Second, we are beginning a five-year, $2.3 billion strategic capital program, the Jobs Ontario Capital Fund, to prepare our transportation, communications and environmental systems for the 21st century. Approximately 10,000 jobs will be created this year alone in building these lasting assets.
- Third, we are expanding our support for non-profit housing by 20,000 units through the Jobs Ontario Homes Fund, generating some $2.1 billion in capital activity in the construction industry.
- And to support Ontario businesses in investing, innovating and creating jobs, we are reducing taxes on manufacturing, small business and resource industries. The benefits from this support will be available to more than 200,000 businesses.

A Commitment to Public Services

- To fulfil our commitment to maintaining public services, we have begun the work of restructuring and streamlining programs to provide more effective service to the public and to ensure that public services are affordable and sustainable.

- We are maintaining our universal health care system. By working with the health care community to make the system more effective, we are limiting growth in health spending to two per cent this year, down from an average of more than 11 per cent over the last ten years.
- We are continuing to reform our social assistance system. And we are providing training and jobs to help recipients get back into the workforce.
- We are reforming tax grants for seniors to redirect support through tax credits to the lowest income seniors, who need it most.

Keeping the Deficit in Check

- We have brought our deficit down from the unacceptable level we faced in January. In 1992-93, our operating deficit will be $6.0 billion, and our total budgetary requirements this year will be $9.9 billion.
- We have found ways to cut our operating expenditure growth by over $3 billion this fiscal year. Fifteen ministries will actually have a drop in spending.
- The overall rate of growth in total spending in this Budget is the lowest in 39 years. Not since 1953 has the Government of Ontario had a spending increase lower than this year's 4.9 per cent. Excluding social assistance and public debt interest, total spending will grow by only 1.5 per cent – less than the rate of inflation.

We have endeavoured to strike a balance in meeting the priorities of creating jobs, maintaining services and controlling the deficit. To achieve this balanced approach, we have had to raise taxes. We have done so only after putting a tremendous effort into making government more efficient. And although personal income taxes are going up, combined federal-provincial income taxes for individuals earning less than $53,000 will be no higher in 1993 than they are now, as a result of this Budget.

Shortfalls in Federal Funding

This has been a tough year for this Government, as well as for many workers and businesses in Ontario. The recession has taken a severe toll on our revenues and it has increased demand for services such as social assistance, which support the unemployed.

Let me deal directly with the federal government's role in the Ontario economy and this recession.

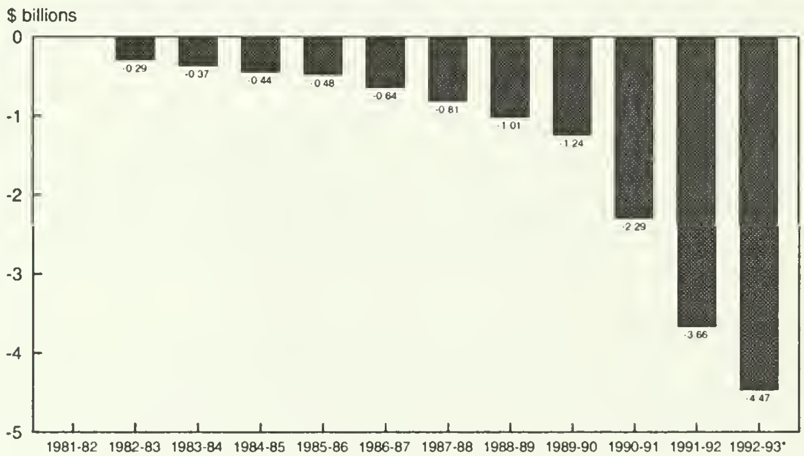
The recession has been deepened and lengthened by the federal government's policy of keeping interest rates and the dollar high, and by its imposition of the GST.

Coupled with the federal government's Free Trade Agreement, these policies have devastated Ontario's manufacturing jobs. And the federal government has not delivered on the adjustment programs it promised.

Premier Rae asked the federal government in February to participate in a national program to create employment through capital works. They have yet to respond to our offer of cooperation.

As if all that were not enough, the federal government has also backed away from its commitments to Canada's health, post-secondary education and social assistance programs. In this year alone, the federal government's limits on its payments for these important programs will cost Ontario $4.5 billion – a loss of more than $1,700 for a family of four.

Ontario Revenue Losses Due to Limits on Federal Payments for Health, Post-secondary Education and Social Assistance



* Projected
Note Cumulative Losses 82-83 to 92-93 $15.7 billion

All the provinces have suffered from the diminished federal role in maintaining this country's human services, such as health care, but almost half the total provincial losses are being borne by Ontario alone.

This Government is determined to maintain these programs. I believe Ontarians are willing to support accessible health care, post-secondary education for our students, and social assistance for people who are most in need.

Ontario has always been a strong supporter of the federal Equalization program, and I continue to believe that Ontarians are willing to share with others in less prosperous regions.

We will pursue aggressively new federal-provincial arrangements that are fair to Ontario, that respect Ontario taxpayers and that preserve the programs that play such an important role in the Canadian standard of living.

And we will shoulder our responsibility to deal with the fiscal pressures that have resulted from federal policies. We will ensure that the people of Ontario do not have to carry an unbearable burden of debt interest costs in the years ahead. We are managing spending better. We are preserving important services by making them more cost-effective. We are maintaining our commitment to fairness. And we are contributing to economic recovery and renewal.

Further information on federal-provincial programs may be found in Budget Paper D.

Jobs, Training and Investment

This Government took office when the recession was already under way. Throughout our first eighteen months, we have been working to reduce the hardship caused by the recession and to increase Ontario's strengths as a good place for people to live and work and invest. All of us realize profound changes have happened, and are still happening, to our economy. This Budget addresses both immediate and long-term needs to create jobs and secure Ontario's place in the world economy.

The recession has lasted longer and gone deeper than most expected. Although it began as a made-in-Canada recession, it has been lengthened by the slowdown in other economies, particularly the United States.

Some signs of an economic recovery have begun to appear. Since the turn of the year, we have seen a pick-up in the U.S. economy and, more significantly, in Ontario's exports to that important market. Last year's decline in interest rates and in the value of the Canadian dollar, while smaller than economic circumstances would warrant, have helped set the stage for economic growth this year. Real output is expected to expand by 2.3 per cent in fiscal 1992-93, and by approximately 4 per cent per year over the medium term as the recovery takes hold. The economy is expected to create over 125,000 jobs by the spring of 1993.

Further information on the economic outlook may be found in Budget Paper B.

This Government cannot control external forces such as interest rates or the pace of recovery in the United States. We can, however, help to secure investment in Ontario's future by redirecting policies towards increasing productivity and encouraging innovation. A paper released with this Budget, titled "Investing in Tomorrow's Jobs," provides further information.

The slow pace of economic recovery shows the importance of focusing on the fundamental challenge of economic change.

I do not need to tell the worker who is moving from manual to computerized production about economic change. Nor do I need to explain to the software entrepreneur what it means to look for a steady supply of innovative programmers. They know our economy is changing and that we must all change with it.

By setting our targets and taking concrete action on jobs, training and investment, this Government is joining with business and labour to reshape our economy for the 21st century.

The JOBS ONTARIO Training Fund

We are determined to help the long-term unemployed. Many need training. Many need child care support so that they can return to work. And all of them want to find good jobs.

To respond, we are creating the JOBS ONTARIO Training Fund – an innovative, three-year training and employment program. It will help the long-term unemployed who are social assistance recipients or whose Unemployment Insurance benefits have run out. It will also benefit employers and provide training opportunities for workers who are now employed.

The JOBS ONTARIO Training Fund will provide a one-year training credit of up to $10,000 to an employer for each eligible unemployed worker hired for a new job. At least half of the training credit must be used to train the new employee, and the rest may be used to train other workers.

We estimate that this $1.1 billion program will support up to 100,000 jobs over the next three years. It will also help provide training for as many as 80,000 other Ontarians who are already working.

In addition, funding for up to 20,000 subsidized child care spaces will be made available to meet the needs of program participants. Affordable and reliable child care is essential for ensuring that parents with young children, particularly women who are single parents, can participate fully in the workforce. These child care spaces represent an unprecedented 40 per cent expansion of subsidized child care spaces in the province.

The Minister of Skills Development will be launching the JOBS ONTARIO Training Fund shortly and will be working with business, labour and community interests to expand it across the province as soon as possible.

Supporting Ontario's Workers

This major new initiative is only part of what this Government is doing to support Ontario's workers. We will spend $930 million on training and adjustment programs this year – an increase of 24 per cent from last year. This is the largest commitment to worker training ever made by a government in this province.

We are also working with business, labour, trainers, educators, aboriginal peoples, community groups and other levels of government to reform our training programs so that we get better value for our training dollar. This summer we will appoint the governing body of the new Ontario Training and Adjustment Board (OTAB). OTAB will help make training and adjustment programs more responsive to the needs of employers, workers and communities by involving all of them in developing new approaches to training.

Our elementary, secondary and post-secondary institutions will also play a vital role in the training and education of the Ontario workforce of the 1990s and beyond.

Pay Equity

We are investing in Ontario's workers in another way by supporting pay equity for women. Pay equity means making sure women get paid fair value for the work they do, and it enables more women to enter the workforce. Despite current fiscal pressures, our commitment to pay equity remains solid. In 1992-93, the Government will spend $285 million to help implement pay equity.

This Government remains committed to its plan to contribute almost $1 billion annually towards pay equity once it is fully implemented.

The JOBS ONTARIO Capital Fund

Public investment in good roads, safe drinking water, reliable public transit and new schools improves our quality of life and significantly increases productivity and future private investment. This leads, in turn, to more high-quality, well-paying jobs in Ontario when business takes advantage of the benefits of locating and staying in Ontario.

To meet these needs, I am establishing the JOBS ONTARIO Capital Fund. The fund will invest $2.3 billion over the next five years to strengthen Ontario's infrastructure. In 1992-93, $500 million will be allocated, resulting in nearly 10,000 direct and indirect jobs in the first year.

Over the coming years, this program will fund projects that support Ontario's transition to a more productive, knowledge-based economy, including:

- telecommunications projects that provide the basis for future business growth;

- environmental projects that ensure clean beaches and safe drinking water;
- new investments to support state-of-the-art upgrades and expansion of public transit;
- major highways essential to reach export markets and facilitate just-in-time delivery; and
- construction of new child care spaces to support the JOBS ONTARIO Training Fund.

The JOBS ONTARIO Capital Fund is in addition to our regular investments in roads, hospitals, schools, homes for the aged, and other projects. This year we will spend a total of $3.9 billion on capital renewal, supporting over 75,000 jobs.

The Government is making these investments now to secure more jobs and better jobs for Ontario workers in the 1990s and into the next century.

The Government will also take a more innovative approach to capital investment and financing in Ontario. This will include consideration of changes in funding arrangements for schools, hospitals, universities, colleges and municipalities. It will include streamlined approvals and new ways to finance major capital investments, such as in the area of transportation.

Over the next few months, we will consult with our transfer partners to restructure our capital financing arrangements, with implementation commencing in 1992-93. The expected impact of these measures is reflected in the Medium-Term Fiscal Outlook. With these measures, Ontario will ensure that the long-term nature of capital investment is more accurately recognized, as is the practice in other jurisdictions. Legislation necessary to implement this approach will be introduced. Later this year, I will make a separate annual report to the Legislature on the Province's capital budget and investments.

The JOBS ONTARIO Homes Fund

We are also moving in this Budget to create jobs in the construction industry and meet the need for affordable housing.

I am announcing today the JOBS ONTARIO Homes Fund, with a commitment to support 20,000 new non-profit housing units. These homes will be allocated over three years and are in addition to the 10,000 non-profit homes that were provided in last year's Budget.

Building these 20,000 homes will generate some $2.1 billion in work for the construction industry – a clear example of how we can create jobs and also meet important community needs.

To summarize: These major Budget initiatives will support jobs that provide training in new skills under the JOBS ONTARIO Training Fund; jobs in building strategic capital for the future under the JOBS ONTARIO Capital Fund; and jobs in building affordable housing under the JOBS ONTARIO Homes Fund. Together these initiatives will create or support 90,000 jobs for Ontario workers in 1992-93, and an even greater number next year. Scores of communities and thousands of businesses across the province will share the benefits.

Jobs Supported by 1992 Budget Initiatives[1] — **Table 1**

	Fiscal 1992-93	
	$ Millions	Jobs
JOBS ONTARIO Training Fund	176	10,800
JOBS ONTARIO Capital Fund	500	9,800
JOBS ONTARIO Homes Fund	–[2]	2,400
Base Capital Spending	3,400	67,000
Total	4,076	90,000

1. Person-years of employment.
2. To cost approximately $200 million in annual operating subsidies once all units are completed.

Supporting Business Investment to Create Jobs

Private investment is key to the creation of secure jobs in Ontario. Business investment brings with it new and improved technology and better ways of organizing production. This is the basis for improving our competitive position in the global economy. For investment to be effective and profitable in the new economy, it requires a highly skilled labour force, a stable and secure social system and first-rate transportation and communications facilities.

Ontario ranks with the best in the world in meeting these needs. But they cannot be taken for granted. We are undertaking important measures in this Budget to maintain and build on these strengths. I am introducing tax measures that will encourage investment and promote restructuring, and will make Ontario an even better place to do business.

Manufacturing

For most types of business, Ontario's corporate tax system is competitive with other jurisdictions when payroll taxes and employer-paid health care costs are considered. Yet we cannot be satisfied with our past successes in attracting investment. Strategic investment in plant and equipment and new technologies is vital to Ontario's economic renewal.

In this Budget, we are taking concrete steps to foster private sector investment and innovation and help create jobs.

- Ontario's corporate tax rate on manufacturing and processing profits as well as farming, mining, logging and fishing profits, will be reduced from 14.5 per cent to 13.5 per cent.
- Ontario will increase the capital cost allowance rate from 25 per cent to 30 per cent for new investment in manufacturing and processing machinery and equipment.
- To help modernize the transportation industry, Ontario will increase capital cost allowance rates on large trucks and tractors as well as railway cars and specified equipment.
- Ontario will broaden eligibility under the R&D Super Allowance to increase research and development in the province.
- Ontario will enrich its Labour-Sponsored Venture Capital Corporation legislation by increasing the maximum annual investment limit to $5,000 and maximum firm size to $50 million in assets.

Together these measures will provide over $90 million in support to investment on a full-year basis. These tax adjustments will benefit businesses, large and small, across Ontario.

Small Business

We are also providing additional support for small business:

- We will reduce the corporate income tax rate for small business from 10 per cent to 9.5 per cent. This rate reduction is effective midnight tonight and will provide small business with $20 million in tax assistance this year alone.
- We will reduce the paperwork burden on small business by allowing them to pay the Employer Health Tax in one annual instalment instead of four times each year.
- We will complement the small business financing program announced in the federal budget.

Industry Partnerships in Action

The Government is already working with many important industries to build Ontario's competitive fundamentals:

- The Telecommunications Advisory Committee, established by the Minister of Culture and Communications, is working to help Ontario become a world leader in the development and application of telecommunications.
- The Minister of Industry, Trade and Technology is working with the automotive industry on ways that automotive parts producers can successfully meet the challenges of restructuring.
- The Minister of Natural Resources has established a Forest Industry Action Group to identify immediate and longer term actions to improve the competitiveness of our pulp and paper and wood products industries.
- The Minister of Skills Development is working with labour, management and the federal government to establish new sectoral training agreements for automotive parts, steel and other key sectors of the Ontario economy.
- The Ministry of Industry, Trade and Technology is funding the Industrial Research and Development Institute in Midland to work with our auto industry and other manufacturers on tool, die and mould-making technologies, which will result in new and better products.
- An advisory committee for the aerospace industry has been established to identify priorities for action. The importance we place on a healthy aerospace industry is reflected by our decision to secure de Havilland's future and by our recent bid to attract the International Space University to Ontario.
- The Ministers of Energy, Environment and Industry, Trade and Technology have been working with private firms and communities to support the development of green industries and markets. Assistance will continue to be provided to encourage the manufacture of energy-efficient products and new environmental control technologies as well as to develop markets for such products and services.
- The Minister of Health is working with health sector providers to identify opportunities for Ontario-based suppliers of goods, services and technologies. In conjunction with the Minister of Industry, Trade and Technology, the Minister of Health is also working with the health sector to promote exports that embody health care technologies and expertise.
- Through the Ontario Centres of Excellence program, the Government has brought together university researchers and private firms in sectors such as information technology, telecommunications, lasers and space research. The Government is renewing the Centres of Excellence for a second five-year term, starting in 1993.

Building Partnerships with Industry

The Government will place a new emphasis on working with industry sectors to address common challenges and improve the prospects for investment.

In today's economy, both competition and cooperation among firms contribute to strong economic performance. Competition is an important driver of innovation. Through cooperation, firms in a sector can accomplish projects that an individual company would not undertake. The benefits from this cooperation can be shared by all firms, enabling them to move to higher value-added activities.

My colleagues are already working with many important industries to strengthen Ontario's competitive fundamentals, and we intend to expand these efforts. We are allocating $150 million over three years for the creation and operation of a Sectoral Partnership Fund. Assistance will be available to cooperative projects in an industrial sector that lead to higher value-added activities. Projects will emerge from consultations between the Government and representatives of business, labour and other parties critical to the success of a sector. The Minister of Industry, Trade and Technology will provide further details.

Strengthening Communities and Regions

Ontario is a large and diverse province, with unique communities and regions. Economic development strategies must include a recognition of local strengths and needs. The people who live and work in these communities know their areas best and must be involved in developing new economic solutions. We are working with local leaders to plan for economic renewal in communities.

Northern Ontario

Over the past year, a number of communities in Northern Ontario have had to face the hard realities of recession and restructuring. The Government has been there to help. Through the Northern Ontario Heritage Fund, we will provide $30 million to strengthen and diversify the Northern economy this year. This will bring the Government's total contributions to the fund to date to $165 million.

In Kapuskasing, the Government worked successfully with the Spruce Falls Power and Paper Company, its workers, a new investor, the community and Ontario Hydro to bring in new ownership and a mill-modernization program. The Ontario Investment and Worker Ownership Program helped bring about this new partnership.

In Elliot Lake and the surrounding area, we are assisting the transition to a more diversified economy through a special $65 million Ontario Hydro package.

In Sault Ste. Marie, Algoma Steel, the United Steelworkers and lenders have concluded an historic agreement to restructure steelmaking operations and ensure that Algoma continues to generate jobs and income for the community through a revitalized worker-owned company.

To assist forestry-dependent communities, Ontario has been working closely with the industry and the federal government to overturn the latest efforts by the United States to impose an import duty on softwood lumber. The Government has also been working with the industry to launch a European lumber marketing venture that will help diversify markets, increase value-added and improve the industry's longer term viability.

Supporting the development of mining communities is a priority for the Government. This summer, the Ontario Geological Survey will be moving its headquarters to Sudbury. This will enhance Sudbury's role as a centre of mining development and expertise.

Ontario has accumulated a large and valuable store of information on its geological resources, which is key to continuing mineral exploration efforts. A total of $11 million will be allocated over the next three years to computerize the geoscience records and maps of the Ministry of Northern Development and Mines. This will help to encourage and improve the effectiveness of exploration in the province. The Government also will be working with the mining industry and Northern communities over the next few months to review incentives for mineral exploration and development.

Rural Communities

Agriculture is the mainstay of rural communities. The Government has been working with the farming community to bring long-term stability to this sector. Through the new Commodity Loan Guarantee Program, we are providing farmers with low-interest working capital. Ontario farmers are expected to benefit from $50 million or more in operating loans from this program in 1992-93. The Minister of Agriculture and Food is continuing to work with the farming community on other innovative solutions to address the need for long-term financing.

At the same time, we are working with the federal government to preserve the benefits of the supply management system under the General Agreement on Tariffs and Trade (GATT). Supply management offers farmers a measure of stability in the face of international subsidy wars. And we are continuing to work with the food processing industry to support innovation and productivity enhancements that will ensure a steady demand for Ontario's farm products.

While provincial and federal efforts to reduce tobacco consumption are generating significant public health benefits, a substantial burden of adjustment is falling on Ontario's tobacco farmers. An earlier adjustment assistance program, cost-shared with the federal government, successfully helped farmers to get out of tobacco production. The Province will continue these efforts and will seek federal participation in this initiative.

Ontario is home to a horse breeding and racing industry that provides a substantial number of jobs and other economic benefits. The Ontario Racing Commission will be working to strengthen the industry by expanding simulcasting and allowing teletheatres. In addition to the benefits provided to the horse-racing industry, the Government will realize over $10 million this year through these measures.

Border Communities

Many communities, especially those in border areas, have expressed interest in expanding gambling as a way of promoting tourism. The Government will establish casinos, by working with interested communities and consulting with charitable and other organizations. In addition to the tourism and employment benefits, this measure will provide the Province with new revenues.

We are working with the federal government to implement its offer to collect Provincial tobacco taxes and alcohol levies at border crossing points. Collection of these charges will reduce tax-based differences in price between products sold domestically and those brought in from the United States.

Community Diversification

Recently the Chair of Management Board of Cabinet announced a program to move government operations to many communities across the province. Among those to benefit will be St. Catharines, whose economy has been rocked by major plant closures. A total of 1,400 jobs will be moved to that city. Other communities benefiting from the program include Windsor, Chatham, Brantford, Niagara Falls, Guelph, Orillia, Peterborough, Kingston, Elliot Lake and Haileybury.

In total, over 5,000 jobs will be involved in the moves over the next five years. These moves will diversify the economic base of many communities.

Controlling Spending and Maintaining Services

The people of Ontario want us to preserve important human services such as health care. But they also want government to control its costs.

This fiscal year, we have reduced the growth in Provincial operating expenditures by over $3 billion. In the face of lower-than-expected revenues, our operating spending this year will be $50.9 billion – $800 million *lower than* the target we set for ourselves a year ago, despite the demand for services caused by the recession. We are holding the increase in total spending to 4.9 per cent. Yet we are still meeting the priorities of Ontarians.

The $3 billion reduction in expenditure growth has been achieved through a number of measures, including internal government efficiencies, limits on transfer payments and major program restructuring.

In January, a $160 million transition fund was provided to help hospitals, schools, colleges and universities restructure and reform their public services. In doing so, we will also preserve services and minimize job losses. Ministers are working with representatives from these sectors – including employers, employees and their representatives, clients and their communities – to make services more cost-effective and efficient. Similarly other transfer partners, such as municipalities and community agencies, are also working with their Ministers to develop strategies aimed at making their services both affordable and more effective.

The Government has also provided leadership in the area of labour relations by negotiating a settlement with its employees' union that responds to the need for cooperation and restraint. The Government is encouraged by public sector unions and employers who have recognized the difficult economic times and who have responded with balanced, creative and affordable settlements. Maintaining services and preserving jobs will require a continuing commitment to achieving innovative and affordable settlements through the collective bargaining process.

Controlling Our Own Spending

One thing that came through loud and clear in our pre-Budget consultations is that people want politicians and public officials to tighten their belts the same as other people across the province. We have heard the message to control our own spending, and we are responding.

- Salaries of Cabinet Ministers and MPPs are frozen for the second year in a row.
- Salaries of the 3,900 most senior managers in the government are also frozen for 1992.
- The Government and the Ontario Public Service Employees' Union have negotiated a creative agreement which includes a wage increase of 1 per cent in 1992 for government employees.
- Non-salary overhead costs for all ministries are being cut by ten per cent this year, saving about $200 million. This includes reductions in

spending on items such as consulting services, supplies, equipment and travel. Ministry spending on communications is also being cut by ten per cent.

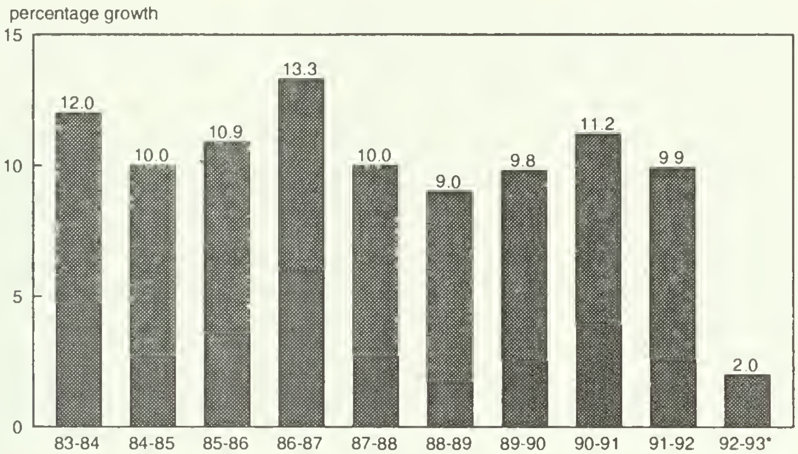
- In both public and private sectors, front-line workers are being empowered and organizations are being streamlined. We will be reducing the size of the public service by at least 2,500 from its 1992-93 level over the next two years, through attrition, early retirement incentives and redeployment.
- To help meet the challenge to do things better and smarter, the Government will appoint a small group of people from outside government to advise on innovative ways to restructure the public service to improve efficiency, accountability and the quality of service.
- Difficult fiscal times also call for flexibility and options that allow employees greater choice when it comes to the balance between work and home. Ontario Public Service employees who wish to take unpaid leave of up to two weeks will be encouraged to do so where this saves money and does not jeopardize services. The Chair of Management Board will announce further details of these plans.

Health Care

Ontarians are fiercely proud of our universal and accessible public health care system. But maintaining the quality of Ontario's health care system while reducing rapid expenditure growth is essential to preserving medicare. Total health care costs have increased at an average annual rate of 11.2 per cent over the past ten years. This high level of growth is simply not sustainable.

Since the tabling of the 1991 Supplementary Budget Paper on "Managing Health Care Funding", the Minister of Health has made significant progress in cooperation with our many health-sector partners to manage health spending. Because of this cooperation, we are able to hold the increase in total health care spending to two per cent this year.

Growth in Ministry of Health Spending
Ten Year Review



* projected

We will implement new measures within the Ontario Health Insurance Plan (OHIP) to achieve additional savings in 1992-93. For example, the Government will consult with the Ontario Medical Association (OMA) on tightening billing criteria to ensure that the services provided to the people of Ontario are of medical benefit.

The ministry will also reform the Ontario Drug Benefit (ODB) Plan, and guidelines will be established for prescribing drugs under this program.

Important reforms have been undertaken in the hospital sector. The reforms will develop new and better ways of allocating resources to maintain hospital services, while moderating the overall expenditure growth rate. These reforms are being coupled with an emphasis on providing long-term care and community-based services.

As part of the Government's commitment to manage health spending more effectively, while improving standards of care and upholding the principles of medicare, the Minister of Health and I will soon table a supplementary Budget Paper on health care resources.

Reforming Support for Seniors

This Government has placed a high priority on putting services for seniors on a solid footing for the years to come. Last year we announced a $647 million program to reform the long-term care system for the elderly and for persons with disabilities. This program will expand health and support services, with an emphasis on providing services at home. Despite the financial pressures we face this year, we are providing an additional $100 million this year to move ahead with these essential reforms.

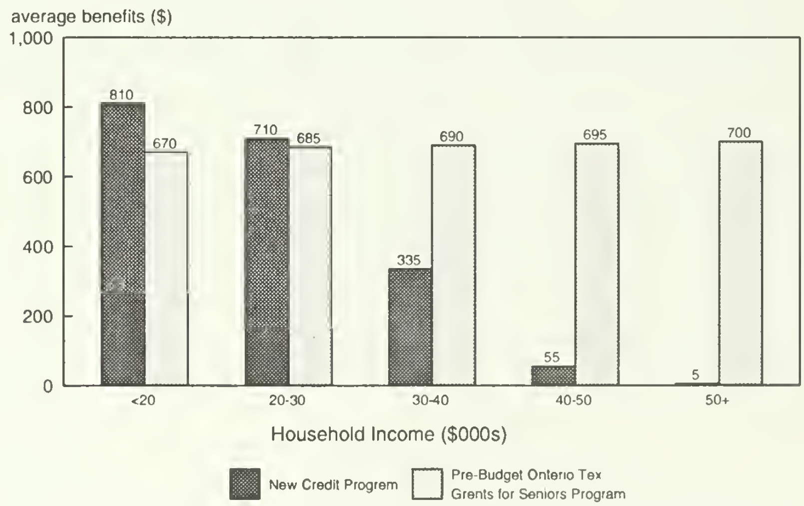
We are also reforming property and sales tax support for seniors. The existing seniors tax grants program will be replaced with refundable property and sales tax credits, which seniors will receive each spring when they complete their income tax returns.

The new tax credits are designed to provide higher benefits to low-income seniors. Over 350,000 senior households will receive increased benefits. For senior households with incomes under $23,000, average benefits will increase by $135 per household. Most senior households with incomes between $23,000 and $40,000 will also receive benefits under the new program, but at a lower level than under the current program.

Reforms to this program will result in savings of about $100 million per year, primarily by ending benefits to most senior households with incomes above $50,000.

Seniors will receive their full tax credits for 1992 when they file their 1992 income tax returns next spring. To assist with the transition to this new program, seniors will also receive tax grants under the existing program in 1992.

Comparison of Average Benefits to Senior Households



Social Assistance

More than one million people in Ontario now rely on social assistance. Expenditure on social assistance in this province has more than doubled in just three years, growing from $2.6 billion in 1989-90 to an estimated $6.2 billion in 1992-93.

We must continue to remove the barriers that prevent many social assistance recipients from moving into the workforce. A major objective of the JOBS ONTARIO Training Fund is to ensure that people who were employed until the recent downturn and who now find themselves on social assistance can regain their independence and upgrade their skills. We expect the JOBS ONTARIO Training Fund to reduce the need for social assistance over the next three years.

To maintain our commitment to a fair social assistance system and to respond to those most in need, the system must achieve greater efficiencies. Limited resources must be used in the most efficient way possible. The Minister of Community and Social Services will provide further details on a number of measures to increase the efficiency of the existing system. These include:

- improving information technology to enhance the responsiveness of the system, reduce paperwork and improve program and policy planning;
- providing greater assistance to recipients to gain access to other sources of income to which they are entitled, such as the Canada Pension Plan and child support payments;
- improving mechanisms for the prevention, detection and recovery of overpayments and fraud, including the greater use of direct deposit of benefits; and
- improving the effectiveness of the Supports to Employment Program, which is designed to provide incentives to employment and remove barriers that prevent social assistance recipients from finding jobs.

These measures will be implemented within the Government's continued commitment to the reform of social assistance.

Total savings to social assistance from these new measures will exceed $300 million in 1992-93, with additional savings expected in future years.

Sharing the Tax Burden Fairly

We are taking important steps in this Budget to manage our health and social services more efficiently. But these cannot completely replace the revenue lost due to the recession and restraints on federal transfers.

For every dollar in new taxes this year, we have found four dollars in costs that we are avoiding through better management of government programs.

We are raising taxes in a way that shares the tax burden fairly. It is vital that the costs of public services be shared as fairly as possible among all of the people of Ontario.

As part of our commitment to providing broad public access to the Budget process, we have ensured that the working groups of the Fair Tax Commission (FTC) represent a diversity of communities and interests. In making my decisions on tax matters, I will continue to consider the analysis and options identified in the working group reports, and I appreciate the perspectives they provide.

Personal Income Tax

We are increasing the Ontario personal income tax rate to 54.5 per cent of Basic Federal Tax for 1992 and to 55 per cent of Basic Federal Tax in 1993 and subsequent years. While this is not an easy decision, the personal income tax is Ontario's fairest revenue source; more than any other tax, it is based on ability to pay.

To improve the fairness of the personal income tax system, we are reforming the Ontario surtax. At present the surtax is paid only by individuals with incomes above $84,000. Beginning in July 1992, individuals earning more than $53,000 will pay a surtax at a rate of 14 per cent. In 1993, the surtax rate for individuals with earnings above $69,000 will increase to 20 per cent. In total, these personal income tax measures will raise $660 million in 1992-93.

These measures will ensure that tax increases are not borne by those with low or moderate incomes. Combined federal-Ontario personal income taxes for individuals earning less than $53,000 will be no higher in 1993 than they are now, as a result of this Budget.

Corporate Minimum Tax

It is also important that profitable corporations contribute to public services in a fair way. The Fair Tax Commission's working group on a Corporate Minimum Tax (CMT) estimated that in 1989 about 6,700 corporations reported book profits but paid little or no Ontario income tax.

This Government recognizes that there are legitimate reasons why profits reported for accounting purposes may be higher than income reported for tax purposes. For example, companies are allowed to deduct dividends received from other corporations for tax purposes to avoid possible double taxation. In addition, the tax system allows companies to offset losses incurred in other years against income in the current year. This moderates the impact of the economic cycle on corporations. The Government believes that these provisions of the tax system are fair and appropriate.

In recognition of the complexity of this issue and in response to the recommendations of the FTC working group for further analysis, I will be releasing a technical paper this fall. Following the release of the paper, the

Government will consult on its recommendations before legislation is introduced.

The technical paper will build on the work of the FTC working group in identifying an appropriate CMT for Ontario. The design of the CMT will be governed by the following principles:

- intercorporate dividends and equity income would be excluded in order to avoid double taxation;
- loss carryovers would be allowed;
- the CMT would be sensitive to concerns regarding retroactive taxation;
- a carryover mechanism would ensure that any CMT paid is creditable against regular income tax liability; and
- small businesses would be exempt in order to avoid increasing their compliance costs.

How Ontario's corporate tax burden compares with other jurisdictions will obviously be a factor in this Government's approach as well. In this respect, it is worth repeating that Ontario's corporate tax system is competitive; it is clear, for example, that Ontario's payroll taxes compare favourably with competing jurisdictions. It is also worth recalling that the United States has a federal corporate minimum income tax.

Banks and Life Insurance Companies

While corporate profits in Ontario have declined significantly throughout this recession, the banking industry as a whole has increased its profit level. Although banks already pay a significant amount of tax to the Ontario treasury, we are asking banks to contribute further since they are better able to sustain a tax increase at this time. Therefore, we are imposing a temporary income surtax of 10 per cent that will automatically sunset on October 31, 1993.

We are increasing the capital tax rate on banks from 1.0 per cent to 1.12 per cent. In addition, an offsetting adjustment will be made to the capital tax base of bank mortgage subsidiaries to improve the fairness of the corporate tax system.

As noted in the recent federal budget, income tax revenues from the life insurance industry remain low despite the industry's high profits. As a result, the federal government is reviewing the taxation of life insurance companies with the industry, to ensure that they pay their fair share of federal tax. In consultation with the federal government, Ontario will also introduce legislation to ensure that life insurance companies pay their fair share of Ontario tax.

These measures are expected to raise $40 million on a full-year basis, and a lower amount after the temporary surtax is sunsetted in 1993.

Employer Health Tax

While all employers pay Employer Health Tax on behalf of their employees, self-employed individuals do not pay this tax on their own earnings. This inequity in the current law will be remedied.

Effective January 1, 1993, individuals earning more than $40,000 net self-employment income annually will be required to pay the Employer Health Tax. This measure will generate $45 million on a full-year basis.

Reforming the Private Sale of Used Motor Vehicles

Every year the Government receives many complaints about sales of used vehicles. For example, some buyers have had their vehicles repossessed because the seller failed to disclose outstanding liens.

To provide consumers with better information, sellers will be required to purchase a Vehicle Transfer Package in order to conduct a private sale. This package will contain a vehicle description and history, including any liens, a fair market value of the vehicle based on an average wholesale price and other consumer information. This information package must be made available to the prospective buyer before ownership is transferred. This package will be required starting April 1, 1993 and will cost $20, raising $13 million in a full year.

As well, the Government does not always receive the appropriate retail sales tax due on transfers of used vehicles. This is not fair to those who pay the full amount. Effective October 1, 1992, I am proposing to change the Retail Sales Tax (RST) treatment of these transactions to ensure that the appropriate tax is paid. I expect this measure to increase sales tax revenue by $35 million in 1992-93, and $95 million in a full year.

Environmental Charges and Beverage Alcohol

This Government is committed to the 3Rs – reduce, reuse and recycle. In support of the Minister of the Environment's waste management initiatives, I am expanding the environmental levy to apply to all non-refillable beverage alcohol containers, including beer cans. In addition, effective May 25, 1992, the levy will be increased to ten cents per container.

Also effective May 25, the volume levy on beer will be increased by five cents. These changes will increase the price of 24 bottles of beer by 50 cents. The price of 24 cans will increase by $3.10. Together these changes will raise $85 million in 1992-93.

Further details on all tax changes can be found in Budget Paper A.

Keeping the Deficit in Check

1991-92 proved to be a more difficult year than anticipated for working people, businesses and government. The recession was deeper and lasted longer than predicted.

While revenues were forecast to decline by 1.0 per cent in the 1991 Budget, preliminary results indicate they actually declined by 4.8 per cent. The Province faced almost $700 million in increased costs including additional social assistance caseloads due to the recession.

To meet these challenges, the Government implemented reductions to ministry operating budgets as well as to specific operating and capital programs. As a result of these measures, total expenditures in 1991-92 were held $470 million below the original budget level. Despite all attempts by the Government to meet our original $9.7 billion deficit target, the revenue shortfall was simply too substantial. The 1991-92 budgetary requirements will be $10.9 billion. Further details are provided in Budget Paper C.

Fiscal Plan for 1992-93

For 1992-93, Provincial revenues will total $44.9 billion, which is $2.3 billion less than we had originally planned a year ago. This reflects the severe and adverse impact of the recession on Provincial revenues.

To meet this revenue shortfall while maintaining public services, vigorous efforts to control costs will be essential. As a result of the measures announced in this Budget, total capital and operating spending will be held to $54.8 billion in 1992-93, which is $1.3 billion below the target we set a year ago. This represents a 4.9 per cent increase over last year's spending.

Ontario's operating deficit will be $6.0 billion. Adding in capital spending of $3.9 billion, our budgetary requirements will be $9.9 billion. Despite continuing fiscal pressures, this level is $1.0 billion below that of last fiscal year.

Medium-Term Fiscal Outlook

As in last year's Budget, I am presenting a Medium-Term Fiscal Outlook extending to 1995-96.

We remain committed to the fiscal goals stated in the 1991 Budget:

- to reduce the operating deficit steadily as the economy recovers;
- to reduce the operating deficit as a proportion of the Gross Domestic Product and total revenue;
- to reduce the rate of expenditure growth; and

- to stabilize our debt servicing costs.

This year's Medium-Term Fiscal Outlook reflects the changes that I said earlier will be made to the Province's capital financing arrangements. The outlook shows how we intend to work towards balancing the operating deficit by 1997 as we promised last year.

Medium-Term Fiscal Outlook **Table 2**
($ Billions)

	Interim 1991-92	Budget 1992-93	Outlook 1993-94	Outlook 1994-95	Outlook 1995-96
Revenue	41.3	44.9	48.0	50.9	54.9
Operating Expenditure	48.4	50.9	53.0	55.2	56.8
Operating Deficit	(7.1)	(6.0)	(5.0)	(4.3)	(1.9)
Capital Expenditure	3.9	3.9	3.1[1]	2.7[1]	2.2[1]
Budgetary Requirements[2]	(10.9)	(9.9)	(8.1)	(7.0)	(4.1)

1 Capital Expenditures adjusted to reflect new capital financing arrangements by $0.8 billion in 1993-94; $1.2 billion in 1994-95; and $1.7 billion in 1995-96.

2 Budgetary requirement calculation changes after 1992-93, reflecting new capital financing arrangements.

Note: Numbers may not add due to rounding

The operating deficit will decrease from $6.0 billion in 1992-93 to $1.9 billion in 1995-96. Taking into account capital expenditures, the Government's budgetary requirements are projected to decrease from $9.9 billion in 1992-93 to $4.1 billion in 1995-96.

The real test of this outlook will be the commitment of the Government to manage its expenditures. Revenue growth is largely linked to economic activity, but stronger economic growth alone will not eliminate the deficit.

Critics will call for more rapid declines in the deficit and I share that wish. But the Government refuses to publish targets that could not be met without introducing extreme tax measures, or arbitrary and disruptive cuts to vital public services. This outlook takes into account the severity of the recession and federal offloading, and it reflects the time needed to restructure our economy and our public services.

Conclusion

Budgets deal with dollars and cents – economic forecasts and fiscal statements. But they are really about people.

This Budget is about putting the men and women of Ontario back to work – supporting some 90,000 jobs in 1992-93.

It is about people who have been out of work for a long time – assisting up to 100,000 of them with jobs and training over the next three years.

It is about people who need affordable housing – providing support for 20,000 new non-profit housing units and generating $2.1 billion in work for the construction industry in the years ahead.

It is about the people who build our communities and the capital works that form the foundation of our prosperity – investing $3.9 billion in these lasting assets.

It is about people who live in the North, who rely on our natural resource industries – about ensuring that communities not only survive but prosper in the future.

It is about our farmers – and maintaining the stability of our rural communities.

It is about the people who run businesses in Ontario – and supporting them in the innovations and investments that will help shape our future.

It is about all the people who provide and use the many important services that our taxes pay for – sustaining those services and finding new ways to manage programs better.

Under the strong and committed leadership of Premier Bob Rae, my colleagues and I formed a government 18 months ago with an agenda to serve people and to lead them. We have been tested by the forces of global change and domestic uncertainty. Yet we remain proud of our heritage, and we stand firm in our willingness to extend the hand of partnership to all of those who seek to build on Ontario's great strengths.

We have made this a Budget for Ontario, and for all of the people who have made Ontario strong and who seek to build a better future for their children and grandchildren. Let us go forward to build the Ontario that we want our grandchildren to inherit – a strong and productive province within a united and prosperous Canada.

BUDGET PAPER A

DETAILS OF REVENUE CHANGES

This Budget Paper provides further information on the taxation changes outlined in the Budget Statement. For precise information, the reader is advised to consult the amending legislation.

Income Tax Act

Tax Rate Adjustment

- For the 1992 taxation year, the rate of Ontario personal income tax will be increased by 1.5 percentage points to 54.5 per cent of Basic Federal Tax.
  - Withholdings at source will be made at the rate of 56 per cent of Basic Federal Tax effective July 1, 1992.
- For the 1993 and subsequent taxation years, the Ontario personal income tax rate will be set at 55 per cent of Basic Federal Tax.

Surtax

- For the 1992 taxation year, the Ontario surtax will be calculated as seven per cent of Ontario personal income tax between $5,500 and $10,000 and 14 per cent of Ontario personal income tax in excess of $10,000.
  - Effective July 1, 1992, withholdings at source will be made at the rate of 14 per cent of Ontario personal income tax in excess of $5,500.
- For 1993 and subsequent taxation years, the Ontario surtax will be calculated as 14 per cent of Ontario personal income tax between $5,500 and $8,000 and 20 per cent of Ontario personal income tax in excess of $8,000.

Ontario Tax Reduction

- The Ontario Tax Reduction program will be enriched for 1992 and subsequent taxation years.
  - The basic Ontario Tax Reduction will be increased to $175.
  - The amounts in respect of each dependent child under age 19 and each dependant with a disability will be increased to $375.

Table 1 illustrates the impact of Ontario's personal income tax changes when fully phased in. For lower and middle-income taxpayers, there will be no increase in the combined federal and Ontario income tax as a result of the federal and Ontario 1992 budgets.

Impact of Personal Income Tax Changes for 1993 ($) — **Table 1**

Employment Income	Federal and Ontario Tax Before Changes[1]	Federal Surtax Reduction	Ontario PIT Rate Increase[2]	Ontario Surtax Increase	Net Change
Single Person					
10,000	830	(10)	10	0	0
20,000	3,370	(45)	45	0	0
25,000	4,640	(60)	60	0	0
30,000	5,970	(75)	75	0	0
40,000	10,005	(125)	125	0	0
50,000	14,115	(180)	180	0	0
60,000	18,260	(230)	230	120	120
75,000	25,305	(320)	320	500	500
100,000	37,440	(465)	530	915	980
200,000	86,860	(1,045)	1,190	1,870	2,015
One-Earner Married Couple with Two Children					
20,000	1,280	(25)	0	0	(25)
25,000	2,735	(40)	(55)	0	(95)
30,000	4,525	(55)	55	0	0
40,000	8,560	(110)	110	0	0
50,000	12,670	(160)	160	0	0
60,000	16,815	(215)	215	50	50
75,000	23,815	(300)	300	400	400
100,000	35,880	(445)	505	885	945
200,000	85,305	(1,025)	1,170	1,840	1,985

1 Equals the combined federal and Ontario personal income tax before the 1992 Ontario Budget changes and the federal surtax reduction announced in the February 25, 1992, Federal Budget. Assumes the taxpayer claims only the standard non-refundable tax credits.

2 Net of Ontario Tax Reduction enrichment.

Concordance with the Income Tax Act (Canada)

- Amendments will be made to the *Income Tax Act* (Canada) to conform with the federal government's Fairness Package for taxpayers.
- Other minor concordance adjustments will also be introduced.

All enquiries regarding personal income tax changes should be directed to:

Taxation Policy Branch
Ministry of Treasury and Economics
5th Floor, Frost Building South
7 Queen's Park Crescent East
Toronto, Ontario
M7A 1Y7
1-416-327-0230

Restructuring Tax Assistance for Seniors

- The Ontario Tax Grants for Seniors program will be replaced with refundable tax credits that will be delivered through the personal income tax system.

Ontario Pensioners Property Tax Assistance Act

- No grants will be payable under the *Ontario Pensioners Property Tax Assistance Act* in respect of any year after 1992.
- For 1992,
  - Seniors with eligible occupancy cost (property taxes paid or 20 per cent of rental payments) will be able to claim the lesser of $450 or occupancy cost in 1992.
  - Property Tax Grant payments, not to exceed $450, will be made in two instalments; a cheque in the spring of up to $300 and a cheque in the fall for the remaining amount.
  - The $50 Sales Tax Grant will also be paid.

Ontario Tax Credits for Seniors

- Seniors will be eligible to claim tax credits through the personal income tax system, starting with the 1992 taxation year. As a result, seniors will be eligible for both tax credits and the adjusted grants noted above for the 1992 taxation year.
- The Ontario Tax Credits for Seniors program will have three basic components.
  - A property tax credit.
  - A sales tax credit.
  - A property tax credit and sales tax credit reduction.

Credit Calculation

- Beginning with the 1992 taxation year, seniors will compute their property tax and sales tax credit benefits as follows.

ONTARIO TAX CREDITS FOR SENIORS

Property Tax Credit	→ $500 (or Occupancy Cost) *Plus* 10% of Occupancy Cost
PLUS	
Sales Tax Credit	→ $100 Basic Entitlement *Plus* $100 for spouse *Plus* $50 per eligible dependent child
LESS	
Credit Reduction	→ 4% of { Combined Net Income *Less* $22,000 }
Ontario Tax Credits (Maximum Credit $1,000)	

WITH $1,400 OF PROPERTY TAX

BEFORE BUDGET CHANGES:

Ontario Tax Grants
for Seniors Program Benefits

Income ($)	Tax Grants ($)
20,000	700
22,250	700
25,000	700
27,500	700
30,000	700
35,000	700
40,000	700
45,000	700

AFTER BUDGET CHANGES:

Ontario Tax Credits
for Seniors Program Benefits

Income ($)	New Tax Credits ($)	Change in Benefits ($)
20,000	840	140
22,250	830	130
25,000	720	20
27,500	620	(80)
30,000	520	(180)
35,000	320	(380)
40,000	120	(580)
45,000	0	(700)

All enquiries regarding these changes should be directed to:

Guaranteed Income & Tax Credit Branch
Ministry of Revenue
P.O. Box 624
33 King Street West
Oshawa, Ontario
L1H 8H8
English: 1-800-263-7965
French: 1-800-668-5821
Device for Hearing Impaired: 1-800-263-7776

The Retail Sales Tax Act

Used Vehicles

The Government does not always receive the full amount of tax owing on transfers of used vehicles. The following changes will ensure that the Government receives the full amount due on all transactions.

- Retail sales tax will be paid on the "fair value" of used vehicles, which will be the greater of the purchase price and the average wholesale price as determined by the Minister of Revenue. Major exceptions are noted below.
  - A tax rebate may be claimed where it can be shown through an appraisal that damage or excessive use justified a purchase price that was lower than the average wholesale price.
  - Family members will be able to transfer used vehicles as gifts exempt from tax. Only one exempt transaction per vehicle will be allowed in a 12-month period. The *Retail Sales Tax Act* defines family members as spouses, parents and children (including in-laws), grandparents and grandchildren.
  - Previously exempt transfers between wholly-owned corporations will continue to be exempt.
  - Persons buying used vehicles from licenced dealers will continue to pay tax on the actual purchase price.
- Only licenced motor vehicle dealers will be able to collect tax on the sale of used vehicles. Only licenced dealers will be able to transfer used vehicles without paying tax to the motor vehicle licence issuer, and only on those vehicles that are registered in the dealer's name.
- These changes will be effective October 1, 1992.

Administrative Amendments

- The Minister of Revenue will be introducing administrative amendments to improve the operation of the *Retail Sales Tax Act* including the following.
  - It will no longer be necessary to enter into a written contract to convert a motor vehicle to alternative fuel use within 90 days of the purchase of the vehicle in order to qualify for a rebate of retail sales tax.
  - Persons fraudulently obtaining, or attempting to obtain, refunds or rebates of tax will be guilty of an offence.

All enquiries regarding retail sales tax changes should be directed to:

Retail Sales Tax Branch
Ministry of Revenue
P.O. Box 623
33 King Street West
Oshawa, Ontario
L1H 8H7
English: 1-800-263-7965
French: 1-800-668-5821
Device for Hearing Impaired: 1-800-263-7776

Revenue from Spirits, Wine and Beer

- Effective May 25, 1992:
  - The volume levy applied to each litre of beer and beer coolers will increase by five cents. The new levy will be 17.6 cents per litre.
  - The current environmental levy, which applies to all beverage alcohol containers for which there is no deposit or recycling system, will be revised to apply to all non-refillable beverage alcohol containers. In addition, the amount of the levy, including retail sales tax, will increase to ten cents per container.

All enquiries regarding these changes should be directed to:

Liquor Control Board of Ontario
Communications Office
55 Lake Shore Boulevard East
Toronto, Ontario
M5E 1A4
1-800-668-5226

Employer Health Tax Act

Self-Employed Individuals

- Effective for fiscal periods ending after December 31, 1992, self-employed individuals will pay Employer Health Tax (EHT) on Total Net Self-Employment Income as calculated for federal personal income tax purposes.
  - Where the 1993 taxation year includes a fiscal period that commenced before April 30, 1992, tax otherwise payable for the fiscal period will be prorated according to the number of days after April 30, 1992.

Exemption

- The first $40,000 of Total Net Self-Employment Income will be exempt from Employer Health Tax.
  - The exemption will be prorated for fiscal periods of less than 12 months.

Tax Rates

- The applicable tax rate will be determined by the level of Total Net Self-Employment Income, before the exemption is deducted.

Total Net Self-Employment Income — **Table 2**

$	Calculation of Tax
0 - 200,000	(N - $40,000) x 0.0098
200,001 - 400,000	$1,568 + 0.02726 x (N - $200,000)
Over 400,000	(N - $40,000) x 0.0195

N = Total Net Self-Employment Income

Instalments

- Self-employed individuals will be required to remit Employer Health Tax on a semi-annual basis.
- An instalment must be paid to the Ministry of Revenue on November 15, 1993, and every November 15th thereafter, based on Total Net Self-Employment Income for the previous taxation year.
- For 1993 fiscal periods straddling April 30, 1992, the instalment otherwise payable will be prorated according to the number of days in the fiscal period after April 30, 1992.
- Self-employed individuals will be required to remit their final payment with their annual EHT return, due May 15, 1994, and every May 15th thereafter.

Administrative Amendments

- A number of administrative amendments will also be made to the *Employer Health Tax Act*, including:
  - Employers with Total Annual Ontario Remuneration not exceeding $200,000 and employers with once-a-year payrolls will be permitted to remit Employer Health Tax once a year, with their annual EHT returns;
  - Employers with Total Annual Ontario Remuneration of $400,000 or less may determine the applicable rate of tax based on the previous year's total payroll, rather than on the basis of annualized quarterly payroll amounts;
  - Employers with multiple accounts will be permitted to file a separate annual return for each account, rather than one combined annual return.

All enquiries regarding the Employer Health Tax should be directed to:

Employer Health Tax Branch
Ministry of Revenue
P.O. Box 627
33 King Street West
Oshawa, Ontario
L1H 8H5
English: 1-800-263-7965
French: 1-800-668-5821
Device for Hearing Impaired: 1-800-263-7776

The Corporations Tax Act

Capital Tax Increase and Temporary Income Tax Surtax on Banks

- The rate of capital tax payable by a bank on its taxable paid-up capital will be 1.12 per cent of the amount taxable for taxation years ending after April 30, 1992.
- For taxation years ending after April 30, 1992, a temporary surtax of 10 per cent will be applied to the income tax payable by banks.
- The temporary surtax will end on October 31, 1993, and will be prorated for taxation years that straddle this date.
- The capital tax increase and temporary surtax will be prorated for taxation years that straddle April 30, 1992.

Tax Adjustment for Bank Mortgage Subsidiaries

- For taxation years ending after April 30, 1992, a bank mortgage subsidiary with a permanent establishment in Ontario will be able to deduct from its taxable paid-up capital, on a dollar-for-dollar basis, any paid-up capital stock or contributed surplus contributed by its parent.
- Bank mortgage subsidiaries are defined in section 1 of the *Loan and Trust Corporations Act*.
- The tax adjustment for bank mortgage subsidiaries will be prorated for taxation years that straddle April 30, 1992.

Income Tax Rate Reduction for Manufacturing and Processing, Mining, Farming, Logging and Fishing

- The rate of corporations tax on income from manufacturing and processing, mining, farming, logging and fishing will be reduced from 14.5 per cent to 13.5 per cent.
- This change will be effective for taxation years ending after December 31, 1992. The tax reduction will be prorated for taxation years straddling December 31, 1992.

Income Tax Rate Reduction for Small Business

- The rate of corporations tax on eligible active business income earned by Canadian-controlled private corporations will be reduced from 10 per cent to 9.5 per cent.
- The 1991 Budget introduced a surtax on Canadian-controlled private corporations with taxable income exceeding $200,000. The surtax

equals the lesser of 3.7 per cent of taxable income in excess of $200,000 and the amount of the small business deduction claimed. The surtax will be increased from 3.7 per cent to 4 per cent as a result of the lower small business rate.

- These changes will be effective for taxation years ending after April 30, 1992. The tax reduction and surtax increase will be prorated for taxation years straddling April 30, 1992.

Concordance with the Income Tax Act (Canada)

Capital Cost Allowance for Manufacturing and Processing Machinery and Equipment

- The Capital Cost Allowance (CCA) rate for manufacturing and processing machinery and equipment, as described in Class 39 of Schedule II of the *Income Tax Regulations* (Canada), will be increased from 25 per cent to 30 per cent for acquisitions after February 25, 1992.

Capital Cost Allowance for Transportation Equipment

- Ontario will increase CCA rates from 30 per cent to 40 per cent for large freight-hauling trucks and tractors; from seven per cent to ten per cent for railway cars; and from four per cent to ten per cent for track and other specified Class 1 rail assets. These changes will be effective for acquisitions after December 6, 1991.

Scientific Research and Experimental Development

- Ontario intends to parallel the proposed changes announced on February 25, 1992, regarding the corporate income tax treatment of scientific research and experimental development expenditures. The effect of these changes will also be to broaden eligibility under Ontario's Research and Development Super Allowance.

Small Business Financing Program

- Ontario will parallel the income tax changes announced on February 25, 1992, relating to certain debt obligations of small businesses in financial difficulty.

These changes complement measures announced by the federal government.

All enquiries regarding corporations tax changes should be directed to:

Corporations Tax Branch
Ministry of Revenue
P.O. Box 622
33 King Street West
Oshawa, Ontario
L1H 8H6
English: 1-800-263-7965
French: 1-800-668-5821
Device for Hearing Impaired: 1-800-263-7776

Labour-Sponsored Venture Capital Corporations Act
(Not Yet Enacted)

- The provisions relating to labour-sponsored investment funds will be amended for the 1992 and subsequent taxation years to parallel the proposed federal changes for labour-sponsored venture capital corporations.
  - The maximum annual tax credit will be increased from $700 to $1,000 for investments in shares of a labour-sponsored investment fund corporation.
  - The total asset limit of an eligible business in which a labour-sponsored investment fund corporation can invest will be increased from $35 million to $50 million.

All enquiries regarding the labour-sponsored venture capital corporations changes should be directed to:

Business Investment Plans Section
Ministry of Revenue
P.O. Box 625
33 King Street West
Oshawa, Ontario
L1H 8H9
English: 1-800-263-7965
French: 1-800-668-5821
Device for Hearing Impaired: 1-800-263-7776

Revenue Changes: 1992 Budget Fiscal Impact Summary **Table 3**
($ Millions)

	1992-93	Full Year
Personal Income Tax		
Tax Rate Adjustment	520	580
Surtax	150	360
Ontario Tax Reduction	(10)	(10)
Retail Sales Tax		
Used Vehicles	35	95
LCBO Profits/LLBO Fees, Licences and Permits[1]		
Volume Levy	40	45
Environmental Levy	45	55
Employer Health Tax		
Self-Employed Individuals	0	45
Corporations Tax		
Capital Tax Increase On Banks[2]	7	15
Temporary Income Tax Surtax On Banks	15	20
Tax Adjustment for Bank Mortgage Subsidiaries[2]	(7)	(15)
Taxation of Life Insurance Companies	15	20
Manufacturing and Resource Industry Rate Cut	0	(40)
Small Business Rate Cut	(20)	(25)
Paralleling Federal Changes		
CCA Increase For Manufacturing Equipment	(10)	(30)
CCA Increase For Transportation Equipment	(6)	(6)
Broadening of R&D Expenditures	0	(5)
Small Business Financing Program	(3)	(3)
Labour-Sponsored Venture Capital Corporations	0	(10)
Net Impact of all Revenue Changes	**771**	**1,091**

1 Inclusive of Retail Sales Tax
2 Net of Corporate Income Tax effects

BUDGET PAPER B
ECONOMIC OUTLOOK

Overview

A number of factors have set the stage for an economic recovery this year in Ontario. The decline in interest rates over the past year, the lower value of the Canadian dollar and stronger growth in the United States are forecast to lead to an improving export picture, stronger housing investment and a turnaround in consumer spending. In 1992 and 1993, the Ontario economy is expected to expand by 1.4 and 3.9 per cent, respectively.

Over the 1994-1995 period, the expansion is expected to be more broadly based. Higher immigration levels, low interest rates and improved employment prospects will continue to support consumer spending and the housing market. A recovery in corporate profits, higher capacity utilization and low interest rates will support business investment. Productivity-enhancing investment, combined with stronger global demand, will spur export sales.

Ontario is forecast to grow at an average annual rate of 3.7 per cent during 1994 and 1995, faster than all G-7 countries except Japan.

Risks

This macroeconomic forecast is based on reasonable assumptions about policy developments, international growth, interest rates, exchange rates and energy prices. International growth is expected to remain weak in 1992 and to gain strength in the 1993 to 1995 period, without returning to the rapid pace of growth of the mid-1980s. Interest rates are projected to remain close to current levels and the Canadian dollar is expected to trade in the 83 to 86 cents U.S. range during the forecast period.

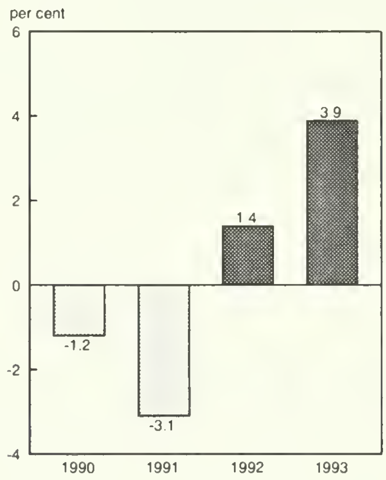
The forecast is particularly vulnerable to developments in the U.S. economy. In addition, international awareness of Canada's constitutional negotiations may have an impact on Canadian financial markets.

Cyclical Recovery

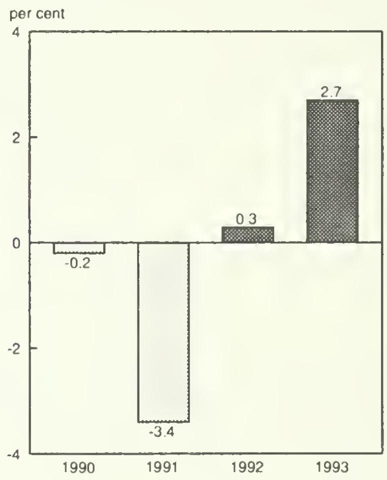
Highlights

- Ontario's real Gross Domestic Product (GDP) is expected to increase by 1.4 per cent in 1992 and by 3.9 per cent in 1993.
  - During the 1992-93 fiscal year, the economy will expand by 2.3 per cent.
- Employment is forecast to increase by 0.3 per cent in 1992 and by 2.7 per cent next year.
  - The economy is expected to create more than 125,000 jobs over the next four quarters.

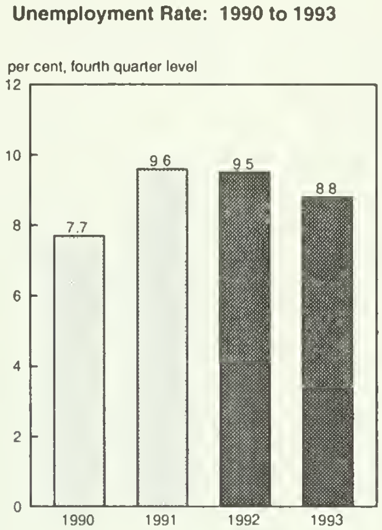
Real Growth: 1990 to 1993

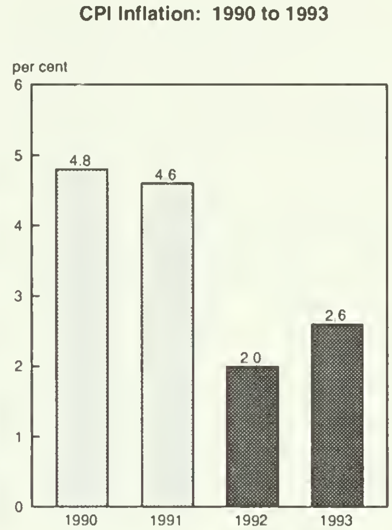


Employment Growth: 1990 to 1993



- The unemployment rate is estimated to average 9.5 per cent in the fourth quarter of 1992 and to fall to 8.8 per cent in 1993:4.
- Ontario's Consumer Price Index (CPI) is expected to rise by 2.0 per cent this year and by 2.6 per cent in 1993.





Key Factors

The Exchange Rate and Financial Markets

The high interest rate policy pursued by the Bank of Canada and the resulting high Canadian dollar pushed the Ontario economy into the worst recession since the 1930s. Structural adjustments due to the Canada-U.S. Free Trade Agreement, increased globalization and technological change, combined with the U.S. recession, exacerbated this downturn.

The weakness in economic activity and the resulting lower inflation pushed interest rates lower last year. The prime lending rate declined from a peak of 14.75 per cent in mid-1990 to 7.5 per cent in early 1992. However, the prime rate rose to 8.25 per cent, as the Bank of Canada raised interest rates to support the dollar. Recent stability in the dollar has allowed the prime rate to drop to 7.75 per cent in mid-April.

In response to high Canadian-U.S. interest rate spreads, the dollar rose to an average level of 87.28 cents U.S. in 1991, up from 85.70 cents U.S. in 1990. Since January, the dollar has fallen in value, reflecting deterioration in Canada's trade balance. Canada's current account deficit widened to almost $27 billion in 1991, up almost $5 billion from 1990.

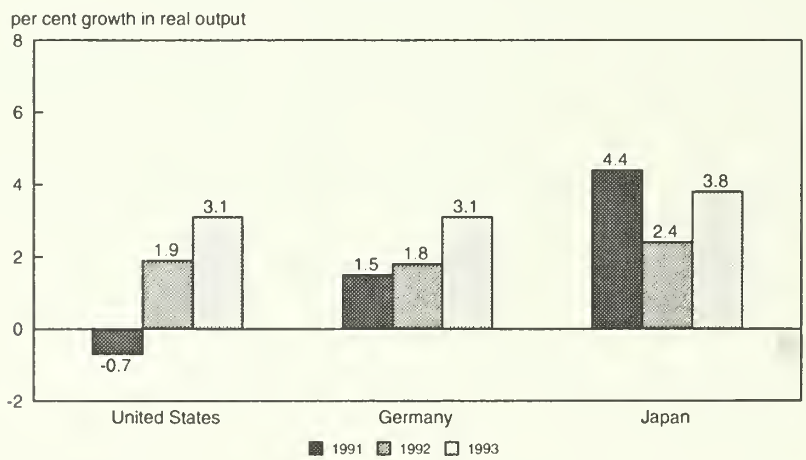
The dollar is expected to trade in the 83 to 86 cents U.S. range this year and next. Continued high interest rate spreads and Canada's improved inflation performance relative to the United States will support the currency. The prime lending rate is expected to average close to 8 per cent this year, rising to the 8.5 per cent range in 1993. The spread between Canadian and American short-term rates is expected to average over 300 basis points this year, falling to an average of 250 basis points next year.

The International Outlook

The U.S. economy stalled in the second half of 1991. The primary cause of the slowdown was an abrupt decline in consumer confidence, following a post-Gulf War upturn. The Federal Reserve Board has eased interest rates significantly over the past year. Recent economic data point to an improvement in U.S. growth. Most forecasters expect growth to accelerate in the second half of 1992 and to continue through 1993. According to U.S. forecasters, real U.S. GDP is expected to rise by 1.9 per cent in 1992 and 3.1 per cent in 1993.

Germany is projected to grow by 1.8 per cent in 1992, up from 1.5 per cent in 1991. The Bundesbank's concern over inflationary pressures stemming from wage increases is expected to keep short-term interest rates high during the first half of 1992. Growth is expected to strengthen in the second half of 1992, as interest rates ease and the year-over-year inflation performance improves. Real output in Germany is expected to rise by 3.1 per cent in 1993.

International Economic Outlook: 1991 to 1993



Growth in the Japanese economy is projected to slow to 2.4 per cent in 1992 from 4.4 per cent in 1991. The deteriorating outlook for demand growth and weak business confidence has led to significant downward revisions to the forecast for business investment growth. In response to decelerating growth, the government has announced an expansionary fiscal policy. Higher public spending, particularly on investment projects, in addition to the lagged stimulative effect of interest rate declines, will contribute to a rebound in economic growth in the second half of this year. Real growth is expected to increase to 3.8 per cent in 1993.

Energy Prices

Oil price changes have a significant impact on industrialized economies. Ontario's oil bill in 1991 was about $4.5 billion. Every $1 increase in oil prices costs Ontario consumers and business about $170 million and raises the province's CPI inflation rate by about 0.1 percentage points. Prices for West Texas Intermediate grade oil are estimated to average U.S. $21 per barrel in 1992, down marginally from 1991. Stronger economic growth will push prices to the U.S. $22 range in 1993.

Canadian Outlook

The Canadian economy is forecast to resume growth in the second quarter of 1992, with real output rising by 1.6 per cent for the year as a whole. The recent decline in the dollar, lower interest rates and a pick-up in the U.S. economy will boost activity. In 1993, the Canadian economy is expected to grow by 3.6 per cent, slightly slower than Ontario.

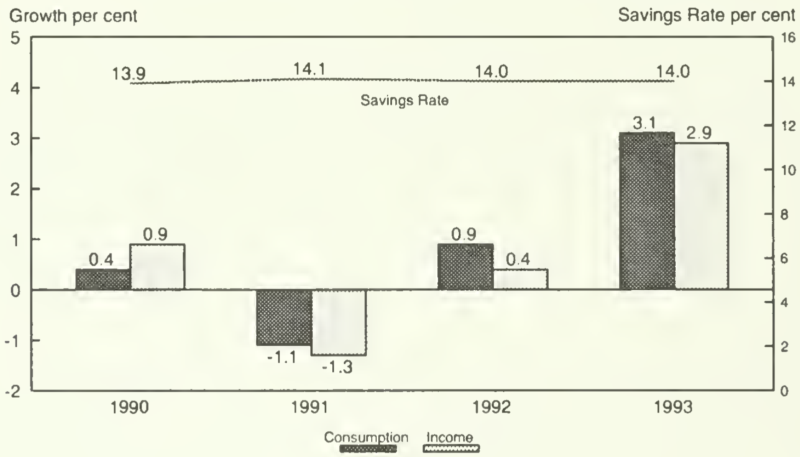
Ontario's Economic Outlook

Ontario's economy is estimated to grow by 1.4 per cent in 1992. Next year, the economy should expand by 3.9 per cent. A turnaround in consumer spending and stronger housing investment are projected. Investment in machinery and equipment will rebound modestly as business conditions improve. A resumption of growth in the United States and the recent decline in the dollar will boost real exports.

Consumer Spending Expected to Recover

Real consumer spending fell by an estimated 1.1 per cent in 1991. The negative impact of the Goods and Services Tax (GST), record job losses, a weak housing market and high household debt burdens were responsible for the drop in spending.

Real Consumption, Real Personal Disposable Income and the Savings Rate: 1990 to 1993



Consumer spending is expected to rise by 0.9 per cent in 1992 and a further 3.1 per cent in 1993.

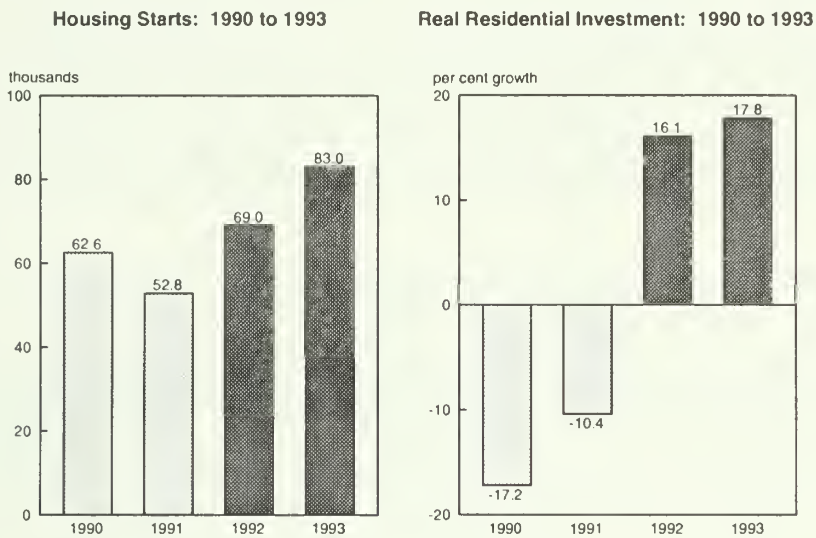
- Expenditures on autos and housing-related durables are projected to exhibit strength.

The primary factor that has set the stage for recovery in consumer spending is an expansion of real discretionary spending power -- the increase in real personal disposable income and the savings to consumers from lower interest rates. After declining by almost $2.0 billion in both 1990 and 1991, real discretionary spending power is expected to rise by $2.9 billion in 1992 and by $6.0 billion in 1993.

- The savings to Ontario consumers from lower interest rates alone will add about $2.3 billion to consumers' spending power this year and $0.9 billion next year.
- Real disposable incomes are expected to increase by $0.6 billion in 1992 and a further $5.1 billion in 1993 due to wage and employment growth.

Housing to Lead Economic Recovery

Spending on housing fell 10.4 per cent in real terms in 1991, the second consecutive annual decline. While the Province's Homes Now program pushed socially-assisted starts to almost 14,400 units, nearly double the 1990 level, total housing starts were down almost 16 per cent to 52,794 last year. Although housing activity for 1991 as a whole was well below the 1990 level, it improved steadily during the last three quarters of the year.



Real residential investment is expected to lead Ontario's economic recovery with a robust 16.1 per cent rise this year and a 17.8 per cent gain in 1993. Allowing individuals to use up to $20,000 from their RRSPs tax-free to purchase a home, and a reduced down-payment requirement for first-time home buyers from 10 to 5 per cent, will provide a significant boost to the housing sector over the next two years. The Province's commitment to provide an additional 20,000 non-profit housing units under the JOBS ONTARIO Homes Fund will further strengthen home-building activity over the next few years. A healthier housing market this year reflects other factors as well, particularly the significant improvement in affordability and a projected rise in consumer confidence.

- The proportion of renters able to carry mortgage payments on an average starter home has increased sharply recently. According to the Canada Mortgage and Housing Corporation, one in four renters can now afford to carry a starter home in Toronto, up from only one in fourteen in June 1990.

- The monthly carrying cost for an average resale home purchased in Ontario has fallen from approximately $1,700 in mid-1990 to close to $1,200 currently -- a decline of about 30 per cent.

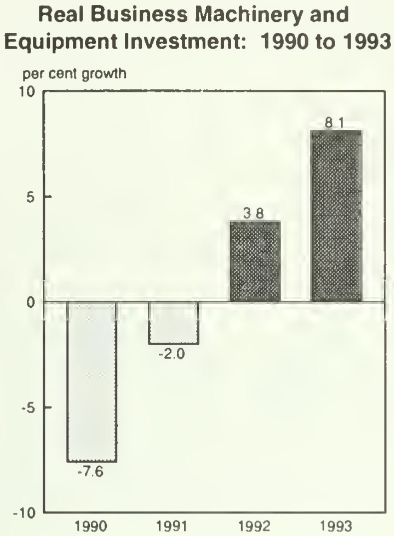
The predicted rise in housing activity this year will be led initially by stronger resale activity, followed by increased new home construction and higher spending on home renovations.

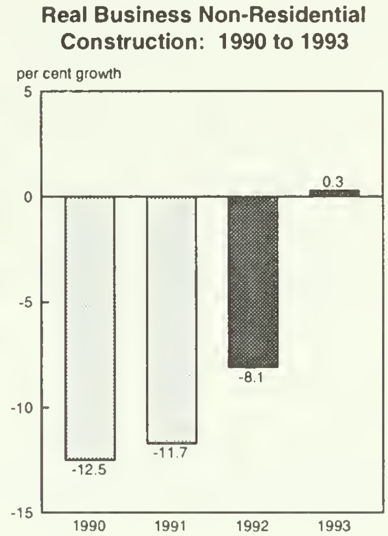
- Housing starts are projected to total 69,000 for 1992. The Ministry of Housing expects to begin construction on 16,500 socially-assisted dwellings this year.
- Next year, improved consumer confidence, stronger job growth and the ongoing stimuli of the RRSP program and the five per cent down-payment initiative are anticipated to lead to 83,000 housing starts in Ontario. Non-profit starts are expected to total 16,500 units in 1993, reflecting the impact of the Province's non-profit housing initiatives.

Recovery Under Way in Equipment Investment, Ongoing Weakness in Non-Residential Construction

Total business investment fell 5.2 per cent in real terms last year. This reflects an 11.7 per cent drop in non-residential construction and a 2.0 per cent decline in machinery and equipment investment. A drop in demand resulted in spare industrial capacity, reducing the need for investment spending. In addition, high real interest rates, the high dollar and the sharp decrease in corporate profits limited the funds available for investment.

- A recovery in machinery and equipment investment appears to be under way. Business spending on industrial machinery and equipment in Ontario recorded its third consecutive quarterly rise in 1991:4. Most of the increased spending was on new office machines, mainly computers.
- Investment in buildings and plants experienced a second consecutive, double-digit decline last year, reflecting the oversupply of commercial and industrial property.
- Profit margins declined sharply throughout the economy during the recession, squeezed by the high value of the Canadian dollar, rising unit labour costs and international competitive pressures.





There are signs of progress in the major factors affecting investment spending:

- The pick-up in economic activity, both here and in our export markets, will help to absorb spare capacity.
- Corporate profits are expected to recover modestly in 1992 and then sharply in 1993. Profits will benefit from both lower interest rates and lower unit labour costs due to a cyclical rebound in productivity.
- The dollar has come down over five per cent from its recent peak in late 1991, helping to boost profits and encourage investment.

Total real business investment is estimated to show no change this year, before advancing by 5.8 per cent in 1993, led by a healthy increase in machinery and equipment spending.

- Lower nominal interest rates, a lower dollar, reduced equipment prices due to the removal of the Federal Sales Tax (FST), ongoing competitive pressures to improve productivity and recent tax changes – including those in this Budget – are expected to sustain the modest recovery in business sector spending on machinery and equipment under way since mid-1991. Real investment in industrial machinery and equipment is expected to rise by 3.8 per cent this year with most of the increase concentrated in the utilities and commercial services sector. Stronger economic growth and a solid recovery in profits should boost investment in machinery and equipment by 8.1 per cent next year.

- Investment in non-residential construction is expected to fall by 8.1 per cent in 1992 and remain essentially unchanged in 1993. The weakness in spending due to the excess supply of office, retail and industrial property will be partially offset by ongoing construction in the transportation, communication and utilities sectors. Moreover, according to Statistics Canada's survey of investment intentions, several manufacturing industries in Ontario plan to increase spending on new structures this year, including paper and allied industries, electrical products and non-metallic mineral products firms.

Ontario's Exports Benefit from Stronger U.S. Growth

Ontario's real exports are projected to grow by 4.5 per cent in 1992 and by 7.6 per cent in 1993. Exports will benefit from the anticipated pick-up in economic growth in the United States and a lower exchange rate. While the manufacturing sector faced a number of permanent closures during the recession, rationalization has improved the competitive position of the sector. Manufactured and processed goods exports, accounting for about 90 per cent of Ontario's merchandise exports, are expected to rebound in 1992 and 1993 as the U.S. economy strengthens.

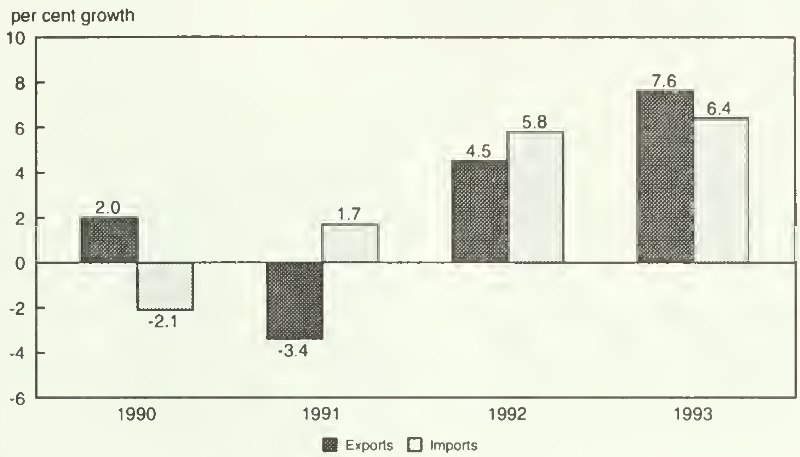
- Motor vehicle sales are primed for a cyclical recovery. Following three consecutive yearly declines, replacement demand will spur sales in both the U.S. and Canada. Auto industry experts predict U.S. motor vehicle sales will improve by 6 to 8 per cent in 1992, to between 13.3 and 13.5 million units. Total North American sales, however, are expected to remain well below the pre-recession peak.

Ontario's imports are forecast to increase by 5.8 per cent in 1992 and 6.4 per cent in 1993. Higher domestic consumption, increased auto production and investments in productivity-enhancing machinery and equipment will be reflected in higher import volumes.

Ontario's real trade balance deteriorated by $5.9 billion in 1991. After a strong rebound in the second and third quarters of the year, real exports fell in the final quarter as a result of very poor U.S. motor vehicle sales and reduced consumption in both the United States and the rest of Canada. Imports were also weak in 1991, as both consumer spending and business investment in machinery and equipment fell.

- Ontario's real trade balance is expected to deteriorate by a further $1.3 billion in 1992 before rising exports lead to an improvement of $1.7 billion in 1993.

Real Ontario Trade: 1990 to 1993

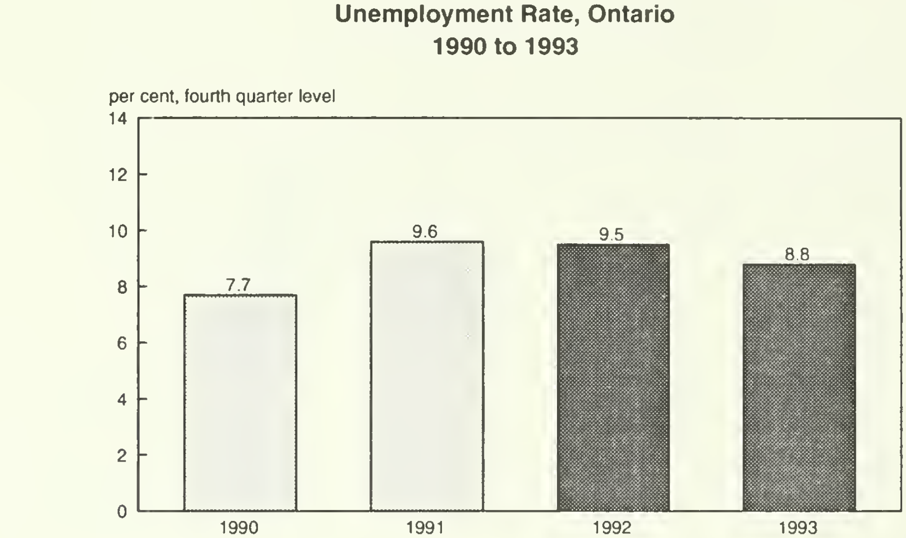


Job Gains Expected to Resume in Spring

Total employment is estimated to increase by 0.3 per cent in 1992 and 2.7 per cent in 1993.

- Job gains are expected to resume in the spring of 1992 as economic growth takes place.
- Job growth over the 1992:2 to 1993:1 period will be over 125,000.

Ontario's unemployment rate is forecast to fall to 9.5 per cent in the fourth quarter of 1992, and drop to 8.8 per cent in 1993:4. The decline in the unemployment rate will be slowed by the re-entry of discouraged workers into the workforce.



Jobs Supported by Budget Initiatives

In formulating this Budget, the Ontario Government has focused on developing initiatives that will help to support about 90,000 jobs during the current fiscal year.

- The JOBS ONTARIO Training Fund will combine job creation with skills training, which will build human capital and help lay the foundation for future productivity growth. This program will provide employers with financial support for almost 11,000 jobs in the current fiscal year.
- The JOBS ONTARIO Capital Fund will create nearly 10,000 direct and indirect jobs in the current fiscal year. This strategic capital program is in addition to maintaining expenditures of $3.4 billion for previously committed capital investments, supporting 67,000 direct and indirect jobs. This spending represents an investment in improving Ontario's physical infrastructure to make Ontario a better place to live and do business.
- The JOBS ONTARIO Homes Fund, which will add 20,000 non-profit housing units over the next three fiscal years, will create nearly 2,400 direct and indirect jobs this year. This will further assist the hard-pressed construction sector.

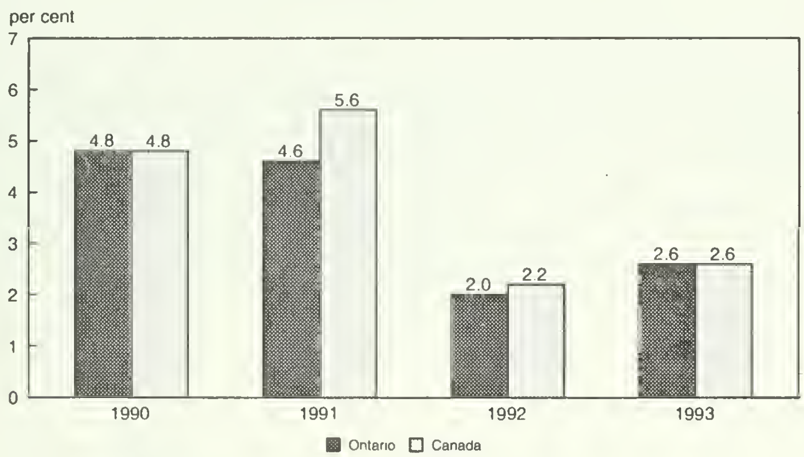
Inflation Rate Drops

Despite the inflationary impact of the GST, Ontario's CPI inflation rate fell to 4.6 per cent in 1991, from 4.8 per cent in 1990, as a result of the sharp economic downturn.

Inflation will remain moderate over the next two years, providing a stable environment for business and consumers. The Ontario CPI inflation rate is expected to be 2.0 per cent in 1992, below the national rate of 2.2 per cent. Stronger economic growth and the impact of the recent decline in the dollar will raise both the Ontario and the national CPI inflation rate to 2.6 per cent for 1993.

- Inflationary pressures from the lower dollar, indirect tax increases and regulated price increases will be largely offset by low mortgage rates, restrained house price increases and lower wage increases.

Consumer Price Index Inflation
Ontario and Canada: 1990 to 1993



Medium-Term Expansion

During 1994 and 1995, Ontario's economy is expected to grow at an average annual rate of 3.7 per cent. This pace of growth is expected to be faster than all G-7 countries except Japan. This expansion will be accompanied by healthy job creation and moderate inflation.

Key Assumptions

The medium-term forecast for 1994 and 1995 examines both the cyclical factors at work as well as the longer term implications of changing demographics and productivity. Factors contributing to the medium-term expansion will be:

- Investment in productivity-enhancing machinery and equipment.
- Sustained growth expected in the United States and other industrialized countries.
- Moderate population growth.

The Bank of Canada is expected to continue a high interest rate policy. In addition, the rebuilding of eastern Europe will increase international demand for credit, while moderating growth in Japan - the leading supplier of international capital - will keep global interest rates high. Over the 1994-95 period, Canada's prime lending rate is expected to average 8.6 per cent. Given an inflation rate of 2.5 per cent, this implies the persistence of high real interest rates, around 6 per cent.

Productivity and Investment

A major factor influencing productivity is the level of investment in plant and equipment, as well as in training and innovation. A fuller discussion of this issue is provided in the Supplementary Budget Paper, "Investing in Tomorrow's Jobs".

The cyclical downturn, exacerbated by an appreciating dollar and near-record high real interest rates, contributed to the slow pace of positive structural adjustment. With substantial excess capacity and declining profits, many firms did not have the incentive or the ability to undertake the investment required for positive restructuring.

- Total Canadian capacity utilization declined from a high of 89.1 per cent before the onset of the recession, to 77.7 per cent in the first quarter of 1991.
- As in previous recessions, this raised the ratio of overhead costs to production costs and tended to reduce productivity, defined as output

per employee. Productivity declined one per cent in 1990 and was essentially flat in 1991.

- As a result, investment declined more than in previous recessions and bankruptcy levels were higher.

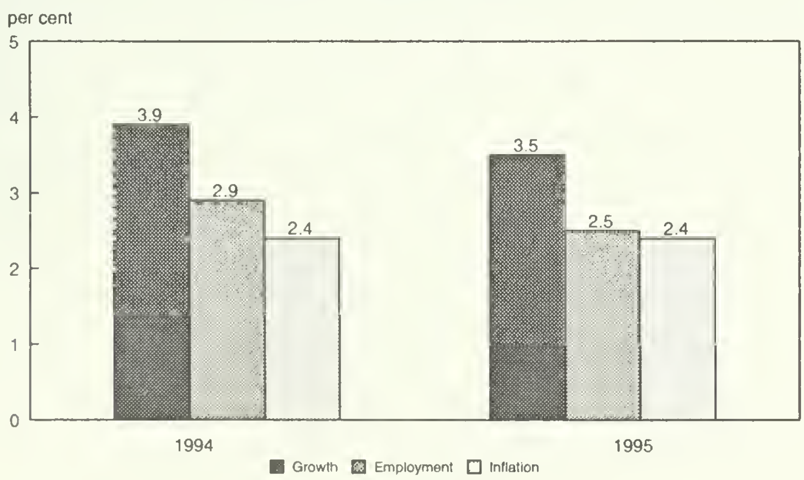
As both market demand increases and profits recover, Ontario firms are expected to undertake the productivity-enhancing investment needed to maintain and strengthen Ontario's competitive position.

Real investment in machinery and equipment is forecast to rise by 7.0 per cent per year over the 1994-95 period. Rising capacity utilization and the expected expansion of investment in innovative products and processes should lead to stronger productivity growth.

Outlook

During 1994 and 1995, Ontario's economy is forecast to grow at an average rate of 3.7 per cent. This economic expansion will lead to solid increases in employment and a steady decline in the unemployment rate. Employment growth is projected to average 2.7 per cent during the 1994-95 period. Well over a quarter million jobs are expected to be created over the two-year period. The unemployment rate is projected to fall to 7.8 per cent by the end of 1995. Ontario's CPI inflation rate is expected to average 2.4 per cent over 1994 and 1995.

Ontario Real Growth, Employment and Inflation: 1994 to 1995



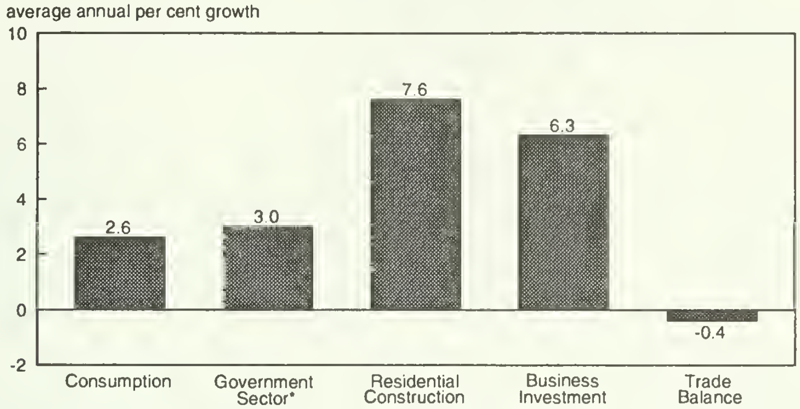
Over the 1994-95 period, real consumer spending is forecast to expand modestly, aided by an improvement in the housing and labour markets and a decline in the savings rate.

Housing starts are expected to total 82,000 in 1994, assuming the RRSP program and the reduced down-payment initiative are not continued. Continued employment and income gains are projected to lead to 83,000 housing starts in 1995. Higher levels of international immigration, a return to positive net interprovincial migration and pent-up demand from the recession are expected to support continued strength in housing demand over the 1994-95 period. The Province's new non-profit housing program will also provide stimulus to home building. Real residential investment is forecast to expand at an average rate of 7.6 per cent per year over the 1994-95 period.

Total real business investment in plant and equipment is forecast to grow at an average annual rate of 6.3 per cent over the 1994-95 period. Improving corporate profits, higher capacity utilization and strengthening demand will combine with continuing low debt financing costs to stimulate business investment. Investment in machinery and equipment is expected to increase by an average 7.0 per cent per year over the medium term. Spending will be stimulated by growing demand, adoption of new technologies and the need for firms to compete in global markets. Non-residential construction is forecast to rise by an average 4.4 per cent over the 1994-95 period. Industrial plant construction is expected to follow the expansion in manufacturing. Weak office and retail construction due to high vacancy rates will partially offset this strength.

Over the 1994-95 period, real imports are expected to grow faster than exports as domestic economic expansion induces higher consumption, and restructuring pressures increase imports of investment goods. Exports will be aided by the continued expansion in the U.S. economy and productivity gains arising from restructuring.

Sources of Real Growth:
1994 to 1995



*Government sector excludes transfers and public debt interest

Ontario Economy, 1990-1995						Table 1
	1990	1991	1992	1993	1994	1995
	(per cent change)					
Real Gross Domestic Product	**- 1.2**	**- 3.1**	**1.4**	**3.9**	**3.9**	**3.5**
Consumption	0.4	- 1.1	0.9	3.1	2.7	2.5
Government	4.7	3.0	0.2	1.8	3.0	3.0
Residential Construction	-17.2	-10.4	16.1	17.8	7.1	8.1
Non-Residential Construction	-12.5	-11.7	- 8.1	0.3	4.9	3.8
Machinery and Equipment	- 7.6	- 2.0	3.8	8.1	8.0	6.0
Exports	2.0	- 3.4	4.5	7.6	4.6	4.6
Imports	- 2.1	1.7	5.8	6.4	4.8	4.7
Nominal Gross Domestic Product	**1.8**	**- 1.3**	**3.2**	**6.1**	**6.2**	**6.0**
Other Economic Indicators						
Retail Sales*	0.0	- 7.5	1.7	5.6	5.1	4.9
Housing Starts (000s)	62.6	52.8	69.0	83.0	82.0	83.0
Personal Income	7.5	2.6	2.7	5.3	5.4	5.5
Corporate Profits (before tax)	-29.5	-38.7	3.9	48.6	18.4	12.0
Consumer Price Index						
Canada	4.8	5.6	2.2	2.6	2.5	2.5
Ontario	4.8	4.6	2.0	2.6	2.4	2.4
Labour Markets						
Labour Force	1.0	0.2	0.5	2.2	2.1	2.0
Employment	- 0.2	- 3.4	0.3	2.7	2.9	2.5
Unemployment Rate, fourth quarter level (%)	7.7	9.6	9.5	8.8	8.3	7.8

* Retail sales include Federal Sales Taxes in 1990 but exclude GST after 1990.

BUDGET PAPER C

FISCAL REVIEW AND OUTLOOK

Introduction

This paper:

- provides a review of 1991-92 fiscal performance;
- presents the 1992-93 fiscal plan; and
- provides a medium-term fiscal outlook.

1991-92 Fiscal Performance

Fiscal performance in 1991-92 was dominated by the recession. The impact of the recession on Ontario was more severe than had been anticipated. Revenues, which had been projected to decline by one per cent, actually fell by 4.8 per cent to $41,350 million. The largest declines occurred in personal income and retail sales taxes. Also, the Province did not receive an expected $585 million fiscal stabilization payment from the federal government.

Despite increased demands in social assistance and related programs, Provincial expenditures were managed to levels below the original Budget plan. During the year, the Government instituted several measures to achieve both temporary and permanent savings. As a result, total operating and capital expenditure, at $52,291 million, was actually $470 million below the 1991 Budget target. Overall, the Province's budgetary requirements, at $10,941 million, were $1,215 million above the Budget target of $9,726 million, solely due to the revenue shortfall.

1991-92 Budget Update Summary **Table 1**
($ Millions)

	Budget Plan 1991-92	Interim	In-Year Change
Revenue	43,035	41,350	(1,685)
Operating Expenditure	48,471	48,406	(65)
Operating Deficit	5,436	7,056	1,620
Capital Expenditure	4,290	3,885	(405)
Budgetary Requirements	9,726	10,941	1,215

FISCAL REVIEW AND OUTLOOK

1991-92 Revenue

Revenue performance in 1991-92 reflected the sharp decline in economic activity associated with the recession. The 1991 Budget forecast a decline in revenues, but actual results were poorer than forecast. The economic recovery expected during the second quarter of the fiscal year did not materialize. As well, revenues expected in-year from the sale of SkyDome and from the federal fiscal stabilization program were not received. As a result of these factors, total revenues declined by 4.8 per cent, to $41,350 million.

Taxation revenues, particularly personal income and retail sales taxes, were severely affected by the recession. These two sources accounted for 96 per cent of the $2.9 billion decline in taxation revenue.

Personal Income Tax (PIT) revenue was $2,263 million below the original Budget forecast. The overall decline was the result of continuing high unemployment and low personal income growth in Ontario, and payment adjustments to the federal government in respect of overpayments for prior years. Due to overpayments by the federal government for 1990, Ontario is required to repay $922 million. Of this total, $656 million was paid in 1991-92 and $266 million will be paid in 1992-93.

The decline in PIT was partly offset by an increase of $810 million in federal payments under Established Programs Financing (EPF). The cash component of EPF has risen to compensate for declines in the value of EPF tax transfers; the greater cash payment also reflects increases in federal estimates of population, corporate taxable income, and the inclusion of temporary residents in the EPF entitlement formula.

Retail Sales Tax (RST) revenue was $474 million below the Budget forecast, reflecting decreased consumer and business spending associated with the recession and the federal Goods and Services Tax (GST).

Other taxation sources were also affected by the recession. Mining Profits Tax revenues were down $81 million from forecast. The large decline reflects low base metal prices and depressed demand.

Revenue from the Land Transfer Tax (LTT) declined by $25 million due to continuing weak activity in the housing market. Despite the overall decline, almost 38,000 first-time home buyers received $26 million in LTT refunds under the Ontario Home Ownership Savings Plan. Public Utilities Income Tax receipts declined by $35 million as a result of lower tax collections by the federal government and negative adjustments in respect of the 1989 tax year.

Net non-taxation revenue sources were $187 million above the Budget forecast. Interest on investments was up $130 million because the average level of liquid reserves was higher than forecast. A further $107 million increase was due to asset management activities, including cash transfers from various Crown agencies including $82 million from the Ontario

Energy Corporation, from Suncor dividends and the partial sale of Suncor shares.

These increases were partly offset by decreased revenues from Vehicle/Driver Registration Fees, which were down $21 million from forecast, as a result of recession-related reduced volumes of vehicle renewals and an increasing number of part-year vehicle validations. In addition, Fines and Penalties revenue declined $30 million from the Budget projection. The decline was the result of a higher than expected number of court case dismissals due to the *Askov* decision on time delay before trials, and a lower average level of imposed fines.

If the original terms of EPF and the Canada Assistance Plan (CAP) had not been changed by the federal government, it is estimated that federal transfers would have been $3.7 billion higher in 1991-92. However, largely as a result of the increase in EPF payments described previously, payments from the federal government increased by $983 million. Payments to Ontario under the CAP were $175 million above Budget forecast, reflecting payments for prior years and the associated increase in entitlements for 1991-92 under the five per cent limit set by the federal government in 1990.

Summary of In-Year Changes to Revenue in 1991-92 — Table 2
($ Millions)

Taxation Revenue		
Personal Income Tax (Net)	(2,263)	
Retail Sales Tax	(474)	
Mining Profits Tax	(81)	
Land Transfer Tax	(25)	
Public Utilities Income Tax	(35)	
All Other Taxation	23	
Sub-Total		(2,855)
Other Revenue		
Vehicle/Driver Registration Fees	(21)	
Interest on Investments	130	
Fines and Penalties	(30)	
Asset Management Activities	107	
All Other	1	
Sub-Total		187
Federal Payments		
Established Programs Financing	810	
Canada Assistance Plan	175	
All Other	(2)	
Sub-Total		983
Total In-Year Changes to Revenue		**(1,685)**

1991-92 Expenditure

Total interim expenditure, at $52,291 million, was $470 million below the level set out in the original Budget plan. In-year expenditure pressures amounting to $668 million were offset by over $1.1 billion in expenditure reduction measures instituted during the year.

Highlights of Major In-Year Expenditure Changes in 1991-92 — **Table 3**
($ Millions)

In-Year Increases:			
Social Assistance: increased caseloads		204	
Payments to Teachers'/Public Service Pension Plans		72	
Legal Aid: increased caseload		63	
Extra Fire fighting		53	
Student Assistance: increased demand		50	
Farm assistance programs		27	
UTDC Financial Obligations		23	
Provincial Highway Winter Maintenance		20	
Ontario Development Corporation loan losses		7	
Various		149	668
Offsetting Actions:			
October 2 Statement			
Reductions: Ministry operating expenses	(140)		
Capital Reduction	(135)		
Wage Protection Fund re-estimate	(85)		
School Boards underspending	(50)		
BPS Pay Equity	(50)		
Public Debt Interest	(35)		
Other	(105)	(600)	
November 19 Statement			
Freeze: Consulting services etc.	(50)		
Capital Reduction	(200)	(250)	
Year-End Spending Freeze			
Discretionary expenditures		(95)	
Other Savings			
Public Debt Interest	(148)		
Wage Protection Fund re-estimate	(45)	(193)	(1,138)
Net Change			**(470)**

In-Year Increases

During 1991-92, the Province funded in-year expenditure pressures of $668 million. Of this increase, $204 million was due to higher than anticipated social assistance caseloads. Large numbers of unemployed persons exhausted their Unemployment Insurance benefits and subsequently became eligible for Provincially funded social assistance.

The recession also had a severe impact on other Provincial transfer programs. For instance, the Ontario Legal Aid Program required $63 million more than was provided for in the Budget. Part of this increase was due to the effect of the *Askov* decision. Also, higher unemployment levels, associated with the recession, adversely affected the ability of many individuals to provide for their own legal representation. The Ontario Student Assistance Program (OSAP) also required $50 million more than the Budget estimate.

The industrial and agricultural sectors also required additional funding. For instance, Ontario farmers received $27 million more from the Province, including $9 million under the Farm Interest Assistance Program, while the Ontario Development Corporation required $7 million more to write off an increase in loan losses.

The Government also faced a number of other unavoidable pressures during the year. The cost of fighting forest fires in Northern Ontario exceeded the Estimates provision by $53 million. As well, the Government paid $72 million more towards the unfunded liability instalments for the Teachers' and Public Service Pension Plans.

In February 1992, the Government approved the sale of the Urban Transportation Development Corporation (UTDC) to Bombardier and approved funding requirements necessary to execute the sale. The Government's net liabilities associated with the sale of UTDC were $23 million in 1991-92. As well, the Ministry of Transportation required $20 million more for previous Provincial highway winter maintenance expenses.

Offsetting Actions

To accommodate the in-year expenditure increases of $668 million as well as partially offset the revenue shortfall of $1,685 million, the Government instituted a series of expenditure reduction measures. These measures, together with other underspending, generated $1,138 million in savings.

October 2 Statement

On October 2, 1991, the Treasurer announced $600 million in expenditure reductions. $140 million of these included permanent reductions to ministry operating budgets. $100 million was secured from a five per cent cut in 1991-92 ministry spending on items such as supplies, equipment and travel while $40 million was saved through a one per cent reduction in funding 1991 salary awards.

Delays in the passage of legislation relating to the Employee Wage Protection Program and Pay Equity in the Broader Public Sector resulted in savings of $135 million. In addition, a further $135 million was underspent due to delays in several capital projects. Slow start-up on projects such as expansion of GO Transit services was primarily the result of delayed land acquisitions, environmental assessments and project design.

The Ministry of Education identified $50 million of underspending by school boards on certain programs in 1991-92. Savings of $35 million were also secured in Public Debt Interest. Other reductions amounting to $105 million were obtained from various programs, including $23 million due to delays in the Ontario Government Relocation Program.

November 19 Statement

On November 19, 1991, the Treasurer announced additional expenditure reductions as part of the measures to offset the net shortfall in personal income tax revenues. These reductions included further capital savings of $200 million largely as a result of delayed land appraisals, engineering design studies and environmental assessment requirements. At the same time, the Government froze ministry spending on consulting services, vehicles and furniture, saving $50 million.

Year-End Spending Freeze

On February 26, 1992, the Treasurer directed ministries to freeze all discretionary spending for the remainder of the fiscal year. This initiative broadened the impact of the measures implemented on November 19, to include inventory purchases, uncommitted transfer payment grants and all non-essential travel. This measure secured further savings of around $95 million.

Other Savings

By year-end, additional savings of $148 million were achieved through a reduction in Public Debt Interest attributable to a revised borrowing strategy and lower interest rates. As well, there were additional savings of $45 million from the Employee Wage Protection Program because of lower than expected program uptake and the delayed passage of legislation.

Operating and Capital Accounts

Interim operating expenditures, at $48,406 million, were $65 million below the Budget plan. Interim capital expenditures, at $3,885 million, were $405 million below Budget. While in-year expenditure pressures were almost exclusively on the operating side, savings to accommodate these expenditure pressures and part of the revenue shortfall were secured from both accounts. The reduction in capital outlays represented delays and not withdrawals from commitments. A significant portion of capital expenditures in 1991-92 reflected the Government's commitment to the one-time $700 million anti-recession program.

The year-end Expenditure Savings and Constraints targets of $200 million in the operating account and $100 million in the capital account were fully achieved.

1992-93 Fiscal Plan

The fiscal plan for 1992-93 projects budgetary requirements of $9,922 million. Ontario's planned operating deficit is $6,022 million, compared to a deficit of $7,056 million in 1991-92. Planned capital expenditures amount to $3.9 billion.

1992-93 Fiscal Plan **Table 4**
($ Millions)

	Interim 1991-92	Budget Plan 1992-93	Per Cent Change
Revenue	41,350	44,925	8.6
Operating Expenditure	48,406	50,947	5.2
Operating Deficit	7,056	6,022	
Capital Expenditure	3,885	3,900	0.4
Budgetary Requirements	10,941	9,922	
Total Expenditure	52,291	54,847	4.9

1992-93 Revenue

The outlook for revenues is based on the current forecast for economic growth with a recovery beginning in the second quarter of 1992. However, as the economy moves out of recession, revenue growth will be slow to recover. The major sources of tax revenue – personal income, retail sales and corporations taxes – have the longest recovery times after a recession because of their tax and payment structures. For example, corporations are able to reduce their taxes even during economic expansions because they can write off their losses from previous years.

Without any action on the part of the Government, total revenues in 1992-93 would grow by only one per cent. The Government will be taking a number of steps to improve its revenue position. As a result, total revenue for 1992-93 is forecast at $44,925 million, an increase of 8.6 per cent or $3,575 million above the interim 1991-92 level. The total includes revenue-raising measures of $771 million, one-time revenues of $1,190 million from the Province's claims for stabilization payments for 1990-91 and 1991-92, and $1,045 million from the sale of assets.

Growth in several individual taxation streams is overshadowed by continuing weak Personal Income Tax (PIT) receipts. With the measures announced in the Budget, PIT will rise by 1.2 per cent to $13,880 million. This forecast includes a $266 million repayment to the federal government in respect of 1990 taxes.

Retail Sales Tax (RST) revenue is expected to recover in 1992-93, rising by 5.1 per cent to $7,865 million. This reflects growth in retail sales as the economy recovers from the recession and consumer confidence improves. This increase includes revenue resulting from improved procedures for RST collection on the sale of used vehicles.

Corporations Tax revenue is forecast to rise by 2.6 per cent, to $3,270 million. This increase is almost entirely attributable to the full-year impact of 1991 Budget measures. Corporate profits are expected to grow by only 3.9 per cent in 1992, and corporations are expected to utilize the loss carryforward provisions in the tax system to reduce their Corporations Tax liabilities in this and future tax years. The net impact of the various 1992 Budget measures on Corporations Tax receipts is estimated to be a decrease of $9 million.

The Employer Health Tax is expected to increase by 3.7 per cent, to $2,745 million. This reflects anticipated growth in employment and salaries and wages, as the economy recovers during the year.

Gasoline and fuel taxes are forecast to increase by $232 million and $71 million, respectively. The strong growth reflects increased consumption and the full-year impact of measures introduced in the 1991 Budget.

Tobacco Tax is expected to decline by $43 million to $985 million. Additional revenues from the 1991 rate increase on tobacco products will be more than offset by reduced tobacco consumption and consequently sales.

Revenue from non-taxation sources is expected to increase by 26.6 per cent in 1992-93, to $5,429 million. The large increase reflects:

- asset sales, including the sale of surplus lands to the Ontario Land Corporation and proceeds from the sale of SkyDome and Suncor;
- volume and environmental levies on beverage alcohol products; and
- introduction of sports lotteries and increases from fees and licences arising from new non-taxation revenue measures.

The increase in non-tax revenue is partly offset by a decline in interest on investments, stemming from lower expected levels of liquid reserves.

The revenue outlook includes one-time fiscal stabilization revenues totalling $1,190 million. Ontario has submitted two claims for 1990-91 and

1991-92 under the federal fiscal stabilization program designed to compensate provinces for year-over-year declines in revenue.

Payments from the federal government, excluding fiscal stabilization, are forecast to increase by 3.5 per cent, to $6,540 million. If the original terms of EPF and the CAP had not been changed by the federal government, it is estimated that federal transfers would have been $4.5 billion higher in 1992-93. Budget Paper D provides details on federal-provincial programs.

Details of 1992-93 revenues are found in Table C2.

1992-93 Operating Expenditures

Table 5 highlights the program areas that have been responsible for the largest part of the increase in operating expenditures from 1991-92.

Major Components of Increase in Operating Expenditure ($ Millions) — Table 5

	1991-92 Interim	1992-93 Budget	Increase $	Increase %
Social Assistance Payments	5,073	6,152	1,079	21.3
Public Debt Interest	4,812	5,655	843	17.5
Pay Equity	47	285	238	506.4
Major Transfers*	15,808	16,072	264	1.7
Transition Assistance for Major Transfers	–	160	160	–
Non-Profit Housing	428	605	177	41.4
JOBS ONTARIO Training Fund	–	176	176	–
Long-Term Care Programs	1,733	1,879	146	8.4
Grants to de Havilland	–	95	95	–
Employee Wage Protection Program	33	81	48	145.5
Ontario Legal Aid Plan	222	257	35	15.8
All Other Programs	20,250	19,530	(720)	(3.6)
Total	**48,406**	**50,947**	**2,541**	**5.2**

* Includes one-time adjustments.

Operating expenditures in 1992-93 are estimated to increase by $2,541 million to $50,947 million, an increase of 5.2 per cent over the interim 1991-92 levels. As outlined in Table 5 above, $1.9 billion of the $2.5 billion increase in expenditure is due to increased social assistance payments and public debt interest. The budgets of 15 ministries will decrease in 1992-93. A breakdown of ministry operating expenditures is in Table C3.

Social assistance spending, which accounts for 65 per cent of operating spending by the Ministry of Community and Social Services, is expected to reach $6,152 million, an increase of 21.3 per cent over the previous year. The additional spending is required primarily to fund the projected higher caseload levels.

Public Debt Interest (PDI) is expected to increase from $4,812 million in 1991-92 to $5,655 in 1992-93, an increase of 17.5 per cent. This is primarily a result of additional financing charges for borrowing required to support financing of budgetary requirements.

Pay equity funding to assist employers in the Broader Public Sector will increase to $285 million in 1992-93 from $47 million in 1991-92. This funding will assist with the implementation of the new proportional value and proxy methodologies in addition to continued support of job-to-job adjustments.

1992-93 expenditures on Major Transfers are expected to increase $264 million or 1.7 per cent over the interim 1991-92 levels. This increase reflects a number of in-year adjustments made for 1991-92 and the one per cent increase announced for Major Transfers in January 1992.

As part of the Major Transfers announcement, an additional $160 million in transition assistance funding was allocated to four sectors: hospitals, $95 million; universities, $22 million; colleges, $17 million; and schools, $26 million.

Funding for non-profit housing will increase by $177 million, reflecting the operating subsidy requirements of projects completed in 1991 and 1992 under existing non-profit housing programs, in particular, Homes Now and the federal/provincial non-profit program.

The JOBS ONTARIO Training Fund will receive $176 million in its first year of implementation. $134.3 million will go directly towards this Fund and the remaining $41.3 million to the Ministry of Community and Social Services for the child care component of this initiative. The JOBS ONTARIO Training Fund was developed to respond to the employment and training needs of the long-term unemployed and social assistance recipients.

Expenditures within the long-term care programs are estimated to increase by $146 million in 1992-93 or 8.4 per cent over 1991-92 levels. The largest increment, $100 million, is associated with the new funding provided for the long-term care reform initiative.

Grants totalling $95 million will be provided to de Havilland through the Ontario Aerospace Corporation. This support will assist the company in restructuring and in research and development.

The Employee Wage Protection Program will require $81 million for claims for unpaid workers in 1992-93, an increase of $48 million over the revised 1991-92 level. The 1992-93 allocation represents the first full year of operation of this program. Although the economy is projected to improve, bankruptcies remain high and a backlog of claims exists.

Legal aid spending will increase by $35 million, reflecting continuing growth in demand for the services of the Ontario Legal Aid Plan.

Approximately $5 billion of 1992-93 operating expenditures will take the form of transfers to municipalities (see Table C4). Unconditional grants, which support general municipal activities, will total $956 million, a one per cent increase over 1991-92.

Many municipal transfers are programs that municipalities or their agencies deliver to clients and cost-share with the Province. General Welfare Assistance is the largest of these, representing 54 per cent of transfers to municipalities in 1992-93. It also accounts for 95 per cent of the $651 million increase in operating transfers to municipalities from 1991-92 to 1992-93.

1992-93 Capital Expenditure

The 1992-93 base capital expenditure program of $3.4 billion will include significant funding for road and highway rehabilitation and expansion and support for provincial and local transit systems. As well, projects will include expansion of the school system where required by population pressures, additional water and sewer projects, rehabilitation and upgrading of the public housing stock as well as industrial support to manufacturing.

The JOBS ONTARIO Capital Fund, a special capital renewal program of $500 million, will focus on investment infrastructure vital to Ontario's changing economy. The funding will be allocated to specific ministry projects, once they have been approved. The 1992-93 commitment of $500 million represents the first year of a five-year, $2.3 billion initiative that will assist the people of Ontario to compete effectively in the emerging economy of the 1990s.

The total capital expenditure budget is $3.9 billion in 1992-93. While this total is slightly above the interim 1991-92 spending levels, it is anticipated that this capital expenditure will produce a greater increase in year-over-year investment due to price reductions available during the recession. For example, contracts currently under negotiation at the Ministry of Transportation are running 10 to 15 per cent below the cost of similar work performed in 1991-92. A ministry breakdown can be found in Table C3(A).

1992-93 Total Expenditure

Operating and capital expenditures combined will total $54.8 billion, a growth rate of 4.9 per cent. This is the lowest percentage increase in total spending since the 1953-54 fiscal year. Excluding increases for social assistance and interest costs, the average increase for all other programs and services is 1.5 per cent.

1992-93 Expenditure Management

In order to meet the expenditure level for 1992-93, the Government has given careful consideration in making these difficult choices. A number of measures have been taken to reduce operating expenditures significantly. These expenditure reduction measures include improvements to internal government efficiency, limiting grant increases to transfer partners to one per cent, program restructuring and rescheduling of cash payments.

These decisions have allowed the Government to reduce operating spending by over $3 billion in 1992-93. As a result, operating spending will total $50.9 billion this year - $800 million below the expenditure target set in the Medium-Term Fiscal Plan in the 1991 Budget. The mature savings from these measures are estimated to total about $4.5 billion in 1995-96.

A portion of these savings has been achieved through the evaluation of government programs. In January 1992, the *Ontario Fiscal Outlook* identified a number of program reviews being undertaken. The recommendations from these reviews have resulted in improved program efficiency, better delivery of services and a reduction in operating expenditures. Some reviews involve multi-year recommendations.

The growth rate in Government operating expenditures has averaged over ten per cent per annum in the past five years. This growth rate is significantly higher than the basic one per cent increase provided in 1992-93 to all Provincial transfer payment agencies. The savings attributed to the one per cent transfer payment increase have been calculated using a very conservative benchmark of expected inflation of two per cent and 1992 population growth of 1.4 per cent. The savings calculation would have been significantly higher had the five-year average operating expenditure growth rate of 10.3 per cent been used as the benchmark.

Operating Expenditure Reductions **Table 6**
($ Millions)

	1992-93 Budget
Internal Government Efficiency	
No Provision to Ministries for 1992-93 Salary Award Costs	60
10% Reduction in Non-Salary Budgets	200
Improved Productivity/Efficiency in Government Operations	187
Transfer Partners	
Limiting Increases to Major Transfer Recipients*	383
Transitional Assistance to Major Transfer Recipients	(160)
Limiting Increases to Other Transfer Recipients*	158
Program Restructuring	
Social Assistance	339
Health Programs – OHIP and ODB	246
Ontario Tax Grants for Seniors	120
Rescheduling of Cash Payments	
Public Sector Pensions	564
Pay Equity – Revised Estimate	100
Public Debt Interest	505
Early Implementation of 1992-93 Program Reviews	100
Other Reductions	258
Total Expenditure Reductions	**3,060**

* Includes savings against a benchmark provision of 3.4 per cent in 1992-93 to compensate for inflation and population growth.

Internal Government Efficiency

Ministries were not provided any increase in their salary budgets for labour settlements. Savings of $60 million are estimated.

A ten per cent reduction in the non-salary budgets of ministries was applied to save a further $200 million. This saving includes reductions in spending on items such as supplies and equipment, travel and consulting services.

Steps will be taken to improve productivity in the operations of government. Ministries were assigned savings targets totalling $187 million to be achieved during 1992-93. Most of these selected reductions will be achieved from ministry non-salary operating budgets and will include savings from streamlining operations and from the announced

2,500 person year reduction in the Ontario Public Service over the next two years.

Transfer Partners

In January 1992, the Government announced a one per cent grant increase to its major transfer partners comprising hospitals, universities, colleges, municipalities and school boards. This decision results in estimated savings of $383 million in 1992-93 when compared to expected inflation and population growth. Similarly, the decision to provide a one per cent increase to all other transfer recipients will save an estimated $158 million in 1992-93.

These savings were partially offset by an additional $160 million provided for transition assistance to hospitals, school boards, universities and colleges for labour adjustment and restructuring.

Program Restructuring

Measures will be taken to increase the efficiency of the social assistance programs, resulting in a reduction of expenditures totalling $339 million. Approximately $200 million will come from administrative efficiencies such as assisting clients to access other sources of income including Unemployment Insurance and the Canada Pension Plan. Another $37 million in savings will result from caseload reductions due to client participation in the JOBS ONTARIO Training Fund and the balance of savings will be derived from such measures as the direct deposit of benefits and improvements in overpayment detection. In addition, measures will be taken to ensure the effectiveness of the Supports to Employment Programs (STEP).

Within the Ministry of Health, approximately $246 million in new savings will be achieved in 1992-93 through expenditure restraint and cost avoidance measures in the Ontario Health Insurance Plan (OHIP) and the Ontario Drug Benefit Plan (ODB).

The measures to be initiated in the ODB program include a drug price increase guideline, encouraging larger quantity prescribing and dispensing for longer term drug therapies and a review of over-the-counter drugs currently covered by the program. These measures are estimated to save $20 million in 1992-93.

Total savings of $226 million will result from measures taken under OHIP for funding provided to physicians; other practitioners, for chiropractic, podiatry, osteopathic, optometric, dental and physiotherapy services; and commercial laboratories. Discussions will be undertaken with the Ontario Medical Association on a number of issues relating to issues of physician supply and to the current OHIP schedule of benefits to ensure that benefits are medically necessary and cost-effective. Discussions will also be undertaken with other practitioners and commercial laboratories on measures to better manage the growth in payments for their services. Details of these measures will be provided soon in a supplementary Budget Paper on health care resources.

The property and sales tax grant program for seniors will be replaced with a progressive tax credit program beginning in the 1992 taxation year. For 1992, reduced grants will also be provided to seniors to ensure there is no interruption in the flow of property and sales tax benefits to recipients. This measure is expected to result in operating expenditure savings of $120 million in 1992-93. See Budget Paper A for details.

Rescheduling of Cash Payments

Beginning this fiscal year, the Government will reschedule part of its matching contributions to the Teachers' Pension Plan (TPP) from the first business day in January to the first business day in April of each year. It will also reschedule its matching contributions to the Public Service Pension Plan (PSPP) so that these are made every three months, instead of every two weeks. Appropriate interest payments will be paid on the rescheduled amounts to ensure there is no financial loss to the pension plans. These measures will result in cash flow savings of $564 million in 1992-93.

Initial estimated spending of $385 million for pay equity in 1992-93 has been revised downward by $100 million due to delays in implementation of approved pay equity plans. This is a cash flow savings. The Government remains committed to its goal of providing $1 billion to assist with pay equity once it is fully implemented.

Other Expenditure Reduction Measures

Reductions of $505 million in Public Debt Interest will result mainly from a lower deficit in 1992-93 than forecast in January and the further development of the 1992-93 borrowing plan. Public debt charges are expected to total $5,655 million in 1992-93.

Early implementation of 1992-93 Program Reviews will save $100 million.

Other reductions, amounting to $258 million in 1992-93, are composed of a variety of saving measures across Government, such as:

- Assessment of the financial needs of students under the Ontario Student Assistance Program will be adjusted to increase the expected weekly contribution from students who are able to secure summer employment - $10 million;

- The Ministry of Housing will reduce operating costs in existing non-profit buildings and limit capital costs for future non-profit housing projects - $19 million;
- The Farm Interest Assistance Program was replaced by the new Commodity Loan Guarantee Program. Other innovative solutions to address the need for long-term financing are being developed - $50 million.
- Ministry spending on communications will be reduced by ten per cent – $10 million;
- The Ministry of Government Services will manage any increased costs of operating and maintaining government buildings – $7 million; and
- The Ministry of Transportation will not be provided full funding for increased municipal transit subsidies – $17 million.

Medium-Term Fiscal Outlook

The Medium-Term Fiscal Outlook for the period 1992-93 to 1995-96 is detailed below in Table 7. Over that period, budgetary requirements will decline from $9.9 billion to $4.1 billion and, similarly, the operating deficit will be reduced from $6.0 billion to $1.9 billion. The Government has reaffirmed its commitment to balancing the operating account by 1997-98.

Medium-Term Fiscal Outlook **Table 7**
($ Billions)

	1992-93	1993-94	1994-95	1995-96
Revenue	44.9	48.0	50.9	54.9
Operating Expenditure	50.9	53.0	55.2	56.8
Operating Deficit	**-6.0**	**-5.0**	**-4.3**	**-1.9**
Capital Expenditure	3.9	3.1*	2.7*	2.2*
Budgetary Requirements**	**-9.9**	**-8.1**	**-7.0**	**-4.1**
Fiscal Indicators				
Operating Expenditure Growth	5.2	4.1	4.1	2.9
Debt/GDP	22.2	23.7*	24.5*	24.3*
PDI/Revenue	12.6	13.8	15.1	15.1

* Capital Expenditures and debt adjusted to reflect new capital financing arrangements by $0.8 billion in 1993-94; $1.2 billion in 1994-95; and $1.7 billion in 1995-96.

** Budgetary requirement calculation changes after 1992-93, reflecting new capital financing arrangements.

The medium-term outlook has been modified to reflect the Province's intention to alter its approach to finance capital expenditures starting in 1992-93. As a result of these changes, the Province's capital commitments funding relationship between the Province and its transfer partners will change. The exact nature of the new financing arrangements will be decided in consultation with our transfer partners.

Over the medium term, operating expenditure growth rates are forecast to drop from 5.2 per cent, the lowest in the last 20 years, to less than 3 per cent by 1995-96.

Revenue growth rates are expected to average 6.9 per cent, well above the expected operating expenditure growth rate over the medium term. The revenue growth rate is attributable to improved economic activity, taxation changes, further asset sales, and non-tax revenue measures in areas such as fees, permits, lotteries and licences.

By 1995-96, the economy is projected to be growing faster than the Provincial debt. Debt as a share of GDP peaks in 1994-95 at 24.5 per cent and declines in the following year to 24.3 per cent. The 1992-93 ratio is 22.2 per cent.

PDI as a per cent of revenue illustrates the Province's ability to service its debt. In this outlook, the PDI to revenue ratio increases from its 1992-93 level of 12.6 per cent and is expected to stabilize at about 15 per cent.

Borrowing and Debt Management

In 1991-92, the Province borrowed a total of $11.5 billion. This was achieved through a diversified borrowing program composed of $8.8 billion in bond issues, an increase of $1.5 billion in short-term public debt consisting of treasury bills and commercial paper, $987 million in borrowing from Canada Pension Plan and $208 million in borrowing from the Province of Ontario Savings Office (POSO) and other deposits. The proceeds of these borrowings, together with a decrease in cash of $133 million, were used to finance the $10.9 billion deficit and debt retirements of $639 million.

Borrowing requirements for 1992-93 are forecast to be approximately $11.1 billion. This includes $6.0 billion for operating deficit funding, $3.9 billion for capital spending and $1.2 billion for refinancing debt.

The Province's total debt in 1992-93 will be $62.8 billion, an increase from $53.1 billion in 1991-92. Per capita debt was $5,354 in 1991-92 and is expected to be $6,244 in 1992-93.

Ontario and Ontario Hydro work jointly to access global markets in order to achieve lower borrowing costs, a high degree of financing flexibility and a broad investor base. Through methods including risk management techniques and sophisticated debt modelling analysis, the Province develops global financing strategies, reduces borrowing costs and minimizes financial risk.

Ontario's diversification in financing this year has included raising funds in an expanding number of international markets, in addition to the domestic market, to achieve low cost financing. Ontario borrowed in the following markets during the 1991-92 fiscal year: Euro-Canadian, Canadian domestic, U.S. domestic, Euro-U.S. and Euroyen. In 1992, Ontario expanded its borrowing strategy to include different securities, such as U.S. commercial paper. Changes were also made to the *Financial Administration Act* to permit increased flexibility in the type of debt instruments the Province can use in its borrowing program.

Consistent with Ontario's increased participation in the capital markets in 1991-92, the Province has enhanced its investor relations activities. The principal objective is to broaden the investor base for Ontario securities by keeping institutional investors informed of Ontario's major financial, economic and fiscal developments. Similar to other borrowing activities, Ontario and Ontario Hydro have integrated their investor relations program.

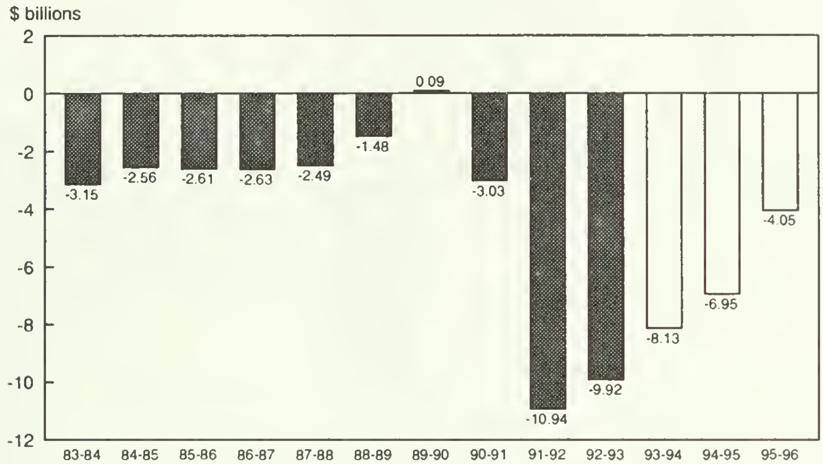
Comparative Measures

Ontario's fiscal performance can be assessed in terms of several commonly used indicators. For a ten-year review of selected indicators, refer to Table C7.

Budgetary Requirements

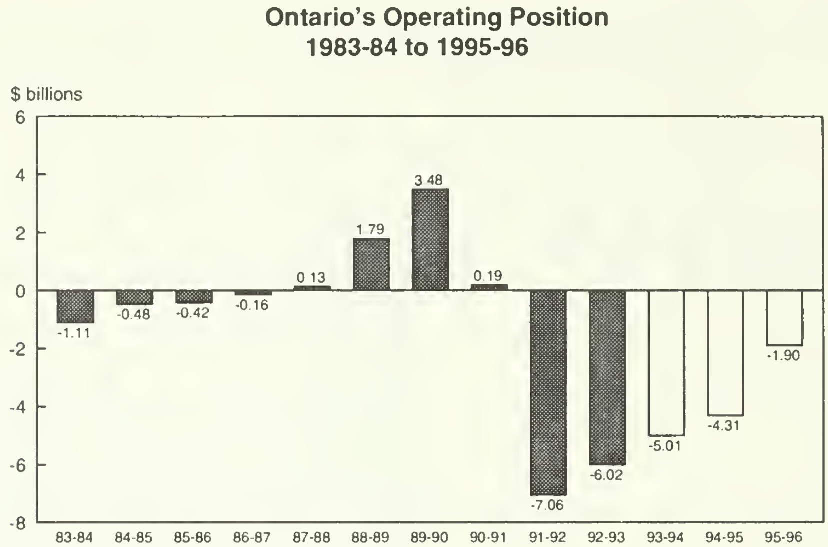
The interim Provincial budgetary requirements were $10,941 million in 1991-92 and are projected at $9,922 million in 1992-93.

Ontario's Budgetary Requirements
1983-84 to 1995-96



Operating Account

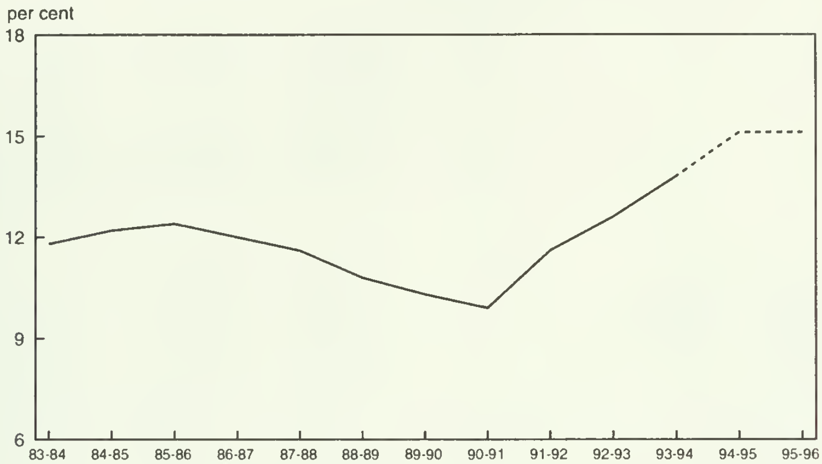
Ontario's operating position is the difference between revenue and expenditure, excluding capital expenditures. The operating position reflects the degree to which the Government pays for its day-to-day operating needs from revenue. In 1991-92, the interim operating deficit stood at $7,056 million and is estimated at $6,022 million for 1992-93.



Debt Measures

Ontario's Public Debt Interest costs are forecast at $5,655 million in 1992-93. Ontario's debt charges as a share of revenue will increase from 11.6 per cent in 1991-92 to 12.6 per cent in 1992-93.

Public Debt Interest as a Per Cent of Revenue
1983-84 to 1995-96



Statement of Financial Transactions ($ Millions)			Table C1
Operating Account[1]	**1990-91**	**Interim 1991-92**	**Plan 1992-93**
Revenue	43,429	41,350	44,925
Expenditure	43,237	48,406	50,947
Surplus (Deficit)	192	(7,056)	(6,022)
Financing:			
Debt Issues - Net (Table C5)	2,832	10,615	9,416
POSO and Other Deposits (Table C5)	169	208	254
Net Financing (Table C5)	3,001	10,823	9,670
Net Loan Repayments (Issues) (Table C6)	32	(15)	(98)
(Increase) Decrease in Cash	(4)	133	350
Transfer to Capital Account	(3,221)	(3,885)	(3,900)
Increase (Decrease) in Accumulated Operating Deficit	**(192)**	**7,056**	**6,022**

See page 90 for accompanying notes.

Revenue **Table C2**
($ Millions)

	1990-91	Interim 1991-92	Plan 1992-93
Taxation Revenue			
Personal Income Tax[2]	15,440	13,712	13,880
Retail Sales Tax	8,176	7,486	7,865
Reciprocal Taxation	111	7	–
Corporations Tax	3,800	3,186	3,270
Employer Health Tax	2,662	2,648	2,745
Mining Profits Tax	116	49	50
Gasoline Tax	1,424	1,618	1,850
Fuel Tax	340	379	450
Tobacco Tax	875	1,028	985
Land Transfer Tax	432	425	445
Race Tracks Tax	83	82	98
Public Utilities Income Tax	49	–	–
Commercial Concentration Tax	102	111	113
Other Taxation	5	11	15
	33,615	30,742	31,766
Other Revenue			
LCBO Profits	650	675	685
Vehicle/Driver Registration Fees	665	659	675
LLBO Fees, Licences and Permits	447	483	650
Other Fees and Licences	454	495	630
Lottery Profits	470	455	470
Interest on Investments	537	590	380
Royalties	189	195	210
Utility Service Charges	143	160	160
Sales and Rentals	97	93	1,202
Fines and Penalties	151	150	155
Recoveries	61	62	45
Reimbursements	116	113	117
OHIP Premiums	4	–	–
Miscellaneous	69	158	50
	4,053	4,288	5,429
Payments from the Federal Government			
Established Programs Financing	2,644	3,524	3,629
Canada Assistance Plan	2,481	2,159	2,250
National Training Act	112	113	105
Bilingualism Development	67	72	72
Young Offenders	60	63	60
Vocational Rehabilitation	47	50	63
Other	350	339	1,551
	5,761	6,320	7,730
Total	**43,429**	**41,350**	**44,925**

See page 90 for accompanying notes

Operating Expenditure[3] **Table C3**
($ Millions)

Ministry	1990-91	Interim 1991-92	Plan 1992-93
Agriculture and Food	564	594	558
Attorney General	561	689	739
Board of Internal Economy[4]	165	150	148
Citizenship	47	55	56
Colleges and Universities	2,855	3,098	3,177
Community and Social Services	6,330	8,293	9,463
Consumer and Commercial Relations	173	176	179
Correctional Services	544	584	579
Culture and Communications	286	300	296
Disability Issues, Office for	5	6	9
Education	5,435	6,043	5,792
Energy	33	38	43
Environment	369	401	429
Executive Offices[5]	14	16	16
Financial Institutions	55	65	63
Francophone Affairs, Office of	4	4	4
Government Services	463	536	503
Greater Toronto Area, Office for the	4	3	3
Health	15,150	16,726	16,986
Housing	547	739	919
Industry, Trade and Technology	188	193	324
Technology Fund	80	81	81
Intergovernmental Affairs	5	7	8
Labour	164	236	274
Management Board	52	69	100
Municipal Affairs	1,000	1,043	1,063
Native Affairs Secretariat	7	17	22
Natural Resources	569	621	596
Northern Development and Mines	109	115	99
Revenue	866	898	749
Seniors' Issues, Office for	6	5	4
Skills Development	243	252	394
Solicitor General	530	589	576
Tourism and Recreation	152	147	141
Transportation	808	870	849
UTDC Guarantee	407	23	–
Treasury and Economics	38	46	45
Contingency Fund	–	–	365
Economic Development Projects	34	38	15
Public Debt Interest	4,313	4,812	5,655
Stadco	321	–	–
Women's Issues, Office Responsible for	19	24	25
Advance Payments[6]	(278)	(196)	–
Expenditure Savings and Constraints	–	–	(400)
Total	**43,237**	**48,406**	**50,947**

See page 90 for accompanying notes

Operating Transfers to Local Government **Table C4**
($ Millions)

	1990-91	Interim 1991-92	Plan 1992-93[7]
Payments in Lieu of Property Tax	122	116	130
School Boards	4,521	4,831	4,987
Municipalities[8]			
Unconditional Grants	902	947	956
General Welfare Assistance	1,224	2,102	2,718
Municipal Homes for the Aged	325	345	337
Municipal Child Care	216	272	290
Local Health Units	185	204	213
Municipal Transit	227	250	254
Other Grants	237	295	298
Total Municipalities	3,316	4,415	5,066
Total Local Transfers	**7,959**	**9,362**	**10,183**

See page 90 for accompanying notes

Financing ($ Millions)			**Table C5**
	1990-91	**Interim 1991-92**	**Plan 1992-93**
Debt			
Issues	3,520	11,254	10,592
Retirements:			
Canada Pension Plan	(476)	(498)	(536)
Teachers' Pensions	(173)	(44)	(506)
Public Service Pensions	(30)	(87)	(124)
Other	(9)	(10)	(10)
	(688)	(639)	(1,176)
Net Debt Issues	2,832	10,615	9,416
Province of Ontario Savings Office - Net Deposits	131	160	210
Other Deposits - Net	38	48	44
Net Financing	**3,001**	**10,823**	**9,670**

Loans and Investments — **Table C6**
($ Millions)

	1990-91	Interim 1991-92	Plan 1992-93
Repayments			
Development Corporations	58	69	49
School Boards	27	22	15
Environmental Projects	25	50	22
Tile Drainage Debentures	21	25	20
Other	27	29	23
	158	195	129
Issues			
Development Loans	51	114	119
Environmental Projects	63	85	97
Tile Drainage Debentures	12	11	11
	126	210	227
Net Loan Repayments (Issues)	**32**	**(15)**	**(98)**

Statement of Financial Transactions — **Table C1(A)**
($ Millions)

Capital Account	1990-91	Interim 1991-92	Plan 1992-93
Capital Expenditure	3,221	3,885	3,900
Financing:			
Transfer from Operating Account	3,221	3,885	3,900

Capital Expenditure — **Table C3(A)**
($ Millions)

Ministry	1990-91	Interim 1991-92*	Plan 1992-93
Agriculture and Food	22	19	15
Attorney General	4	9	6
Citizenship	8	10	8
Colleges and Universities	116	199	100
Community and Social Services	103	126	85
Correctional Services	2	9	–
Culture and Communications	38	31	15
Disability Issues, Office for	3	2	2
Education	332	370	332
Energy	13	21	11
Environment	215	249	200
Government Services	232	249	225
Health	196	129	200
Housing	107	116	86
Industry, Trade and Technology	3	8	28
Municipal Affairs	18	36	19
Native Affairs Secretariat	–	15	20
Natural Resources	95	85	55
Northern Development and Mines	246	242	209
Seniors' Issues, Office for	2	3	3
Solicitor General	37	26	5
Tourism and Recreation	52	69	50
Transportation	1,779	1,851	1,715
Treasury and Economics			
Economic Development Projects	8	11	11
JOBS ONTARIO Capital Fund	–	–	500
Advance Payments[9]	(410)	–	–
Total	**3,221**	**3,885**	**3,900**

* Includes one-time anti-recession funding.

Capital Transfers to Local Government **Table C4(A)**
($ Millions)

	1990-91	Interim 1991-92	Plan 1992-93[10]
School Boards	332	372[11]	332
Municipalities[8]			
Water and Sewer	162	186	130
Waste Management	31	46	38
Municipal Roads	748	819	765
Municipal Transit	175	173	249
Other Grants	108	171	116
Total	**1,224**	**1,395**	**1,298**
Total Local Transfers Allocated	**1,556**	**1,767**	**1,630**
Advance Payments	(300)	-	-
Total Local Transfers	**1,256**	**1,767**	**1,630**

See page 90 for accompanying notes.

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

	1983-84	1984-85	1985-86	1986-87
Financial Transactions				
Revenue	21,412	23,893	26,240	29,544
Operating Expenditure	22,523	24,373	26,655	29,705
Operating (Deficit) Surplus	(1,111)	(480)	(415)	(161)
Capital Expenditure	2,042	2,079	2,199	2,473
Budgetary (Requirements) Surplus	(3,153)	(2,559)	(2,614)	(2,634)
Accumulated Budgetary Requirements	20,075	22,634	28,919	31,531
Net Financing	3,451	2,635	2,863	2,199
Total Debt - Includes POSO and Other Deposits (Excludes Ontario Hydro)	27,406	30,041	32,904	35,103
Gross Domestic Product (GDP) at Market Prices[12]	151,945	171,499	183,561	202,710
Personal Income[12]	131,947	146,193	156,293	169,609
Population - June (000s)	8,798	8,902	9,006	9,113
Total Debt per Capita (dollars)	3,115	3,375	3,654	3,852
Personal Income per Capita (dollars)	14,997	16,422	17,354	18,612
Expenditure as a per cent of GDP	16.2	15.4	15.7	15.9
Public Debt Interest as a per cent of Revenue	11.8	12.2	12.4	12.0
Total Debt as a per cent of GDP	18.0	17.5	17.9	17.3
Cumulative Net Borrowing for Ontario Hydro				
U.S.	6,487	7,206	7,189	6,667
C.P.P.	1,000	1,000	1,000	1,119
Contingent Liabilities (mainly Ontario Hydro)	12,711	14,220	15,963	17,603

See page 90 for accompanying notes

Table C7

1987-88	1988-89	1989-90	1990-91	Interim 1991-92	Plan 1992-93
32,453	37,256	41,692	43,429	41,350	44,925
32,319	35,467	38,210	43,237	48,406	50,947
134	1,789	3,482	192	(7,056)	(6,022)
2,623	3,268	3,392	3,221	3,885	3,900
(2,489)	(1,479)	90	(3,029)	(10,941)	(9,922)
34,020	35,499	35,409	38,438	49,379	59,258
1,878	2,033	242	3,001	10,823	9,670
36,981	39,014	39,256	42,257	53,080	62,750
223,862	252,358	272,161	277,085	273,618	282,251
186,967	208,460	227,910	245,043	251,332	258,210
9,265	9,431	9,590	9,750	9,914	10,049
3,991	4,137	4,093	4,334	5,354	6,244
20,180	22,104	23,765	25,133	25,350	25,695
15.6	15.3	15.3	16.8	19.1	19.5
11.6	10.8	10.3	9.9	11.6	12.6
16.5	15.5	14.4	15.3	19.4	22.2
6,033	5,692	5,150	5,049	4,186	N/A
1,508	2,097	2,748	2,748	2,748	N/A
18,595	20,559	21,490	26,009	30,182	N/A

Notes

1 Cost of capital has not been charged to 1992-93 operations as new capital financing initiatives will be introduced during the year.

2 Net of Tax Credits of $404 million in 1990-91, $380 million in 1991-92 and $420 million for 1992-93.

3 Prior years restated to conform with the current Government structure.

4 Includes Offices of the Assembly, Chief Election Officer, Ombudsman and Provincial Auditor.

5 Includes Offices of the Cabinet, Lieutenant Governor and Premier.

6 Includes $140 million for the Teachers' Pension Plan special payment advanced from 1990-91 to 1989-90, and $196 million advanced from 1991-92 to 1990-91. Also includes $334 million for hospital operations advanced from 1990-91 to 1989-90.

7 Does not include broader public sector pay equity assistance which will be distributed at a later date.

8 Includes only payments to municipalities or agencies which are consolidated for the purposes of municipal financial reporting.

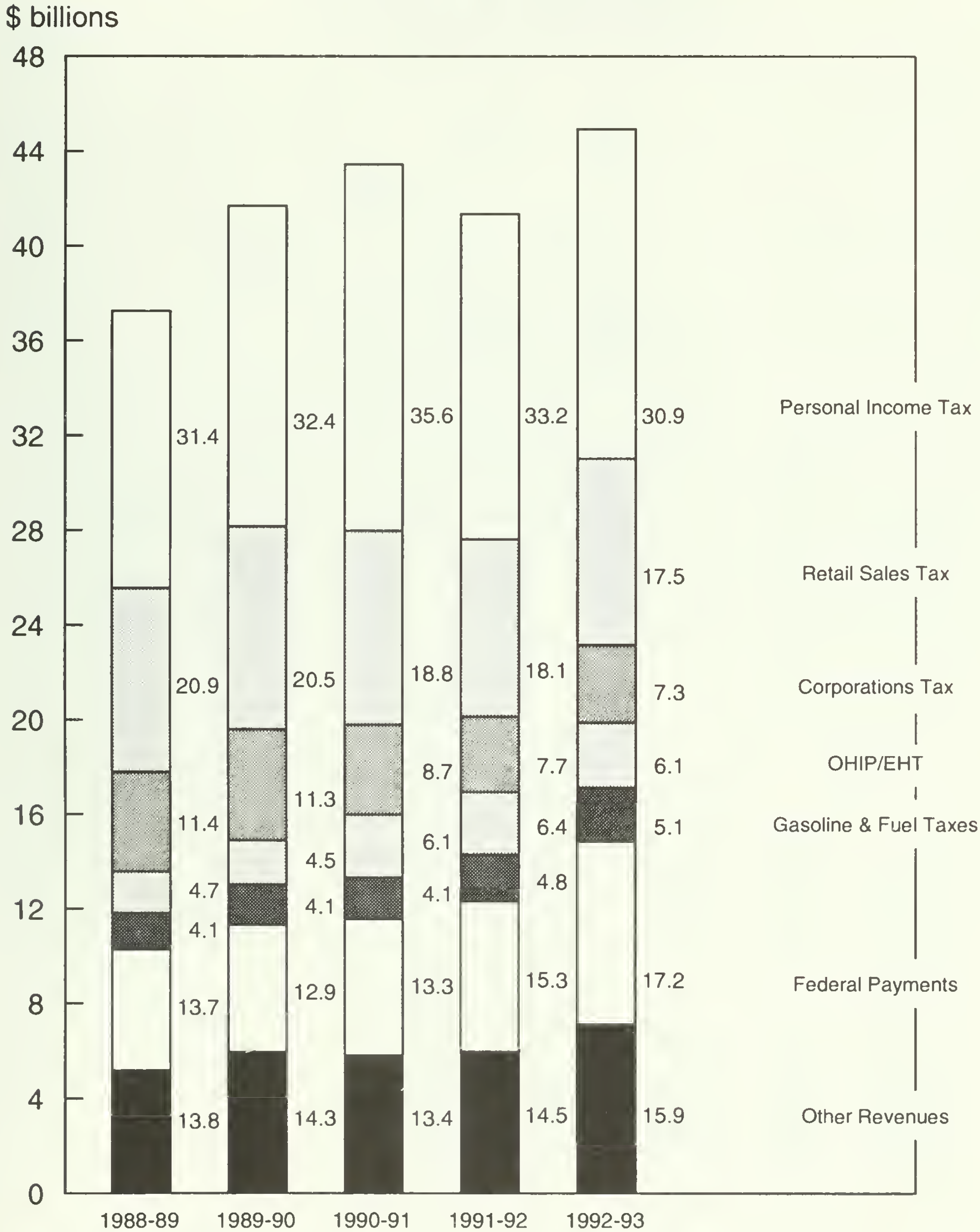
9 Includes $110 million for Colleges and Universities and $300 million for Education, advanced from 1990-91 to 1989-90.

10 Does not include JOBS ONTARIO Capital Fund which will be distributed at a later date.

11 Includes $2.6 million in transfers from the Ministry of Energy for energy efficiency improvements in schools.

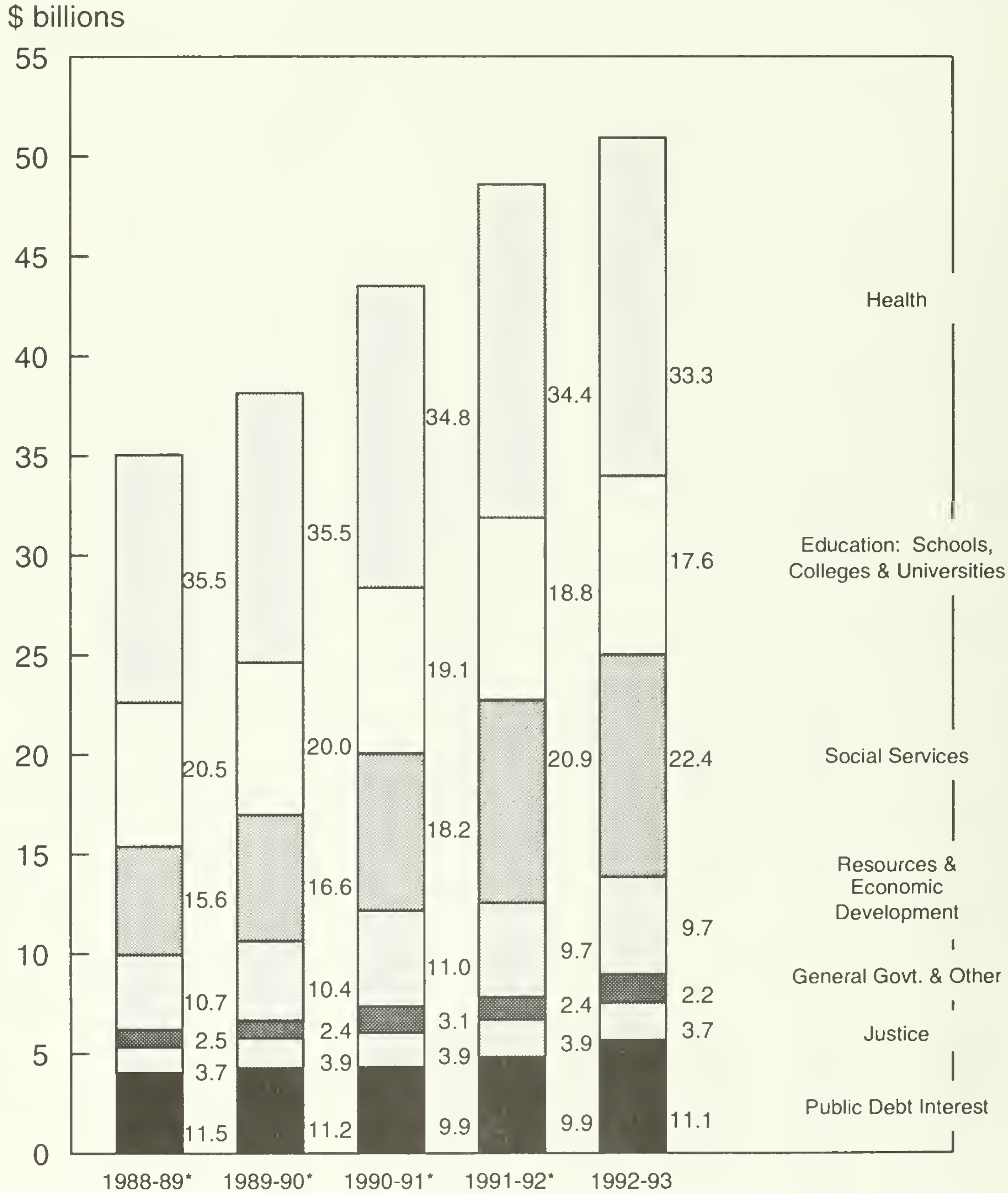
12 Gross Domestic Product (GDP) and Personal Income are calculated on a calendar-year basis. The amounts appearing in a fiscal year column are for the preceding calendar year.

Revenue Sources: Per Cent of Total 1988-89 to 1992-93



Operating Expenditure Functions

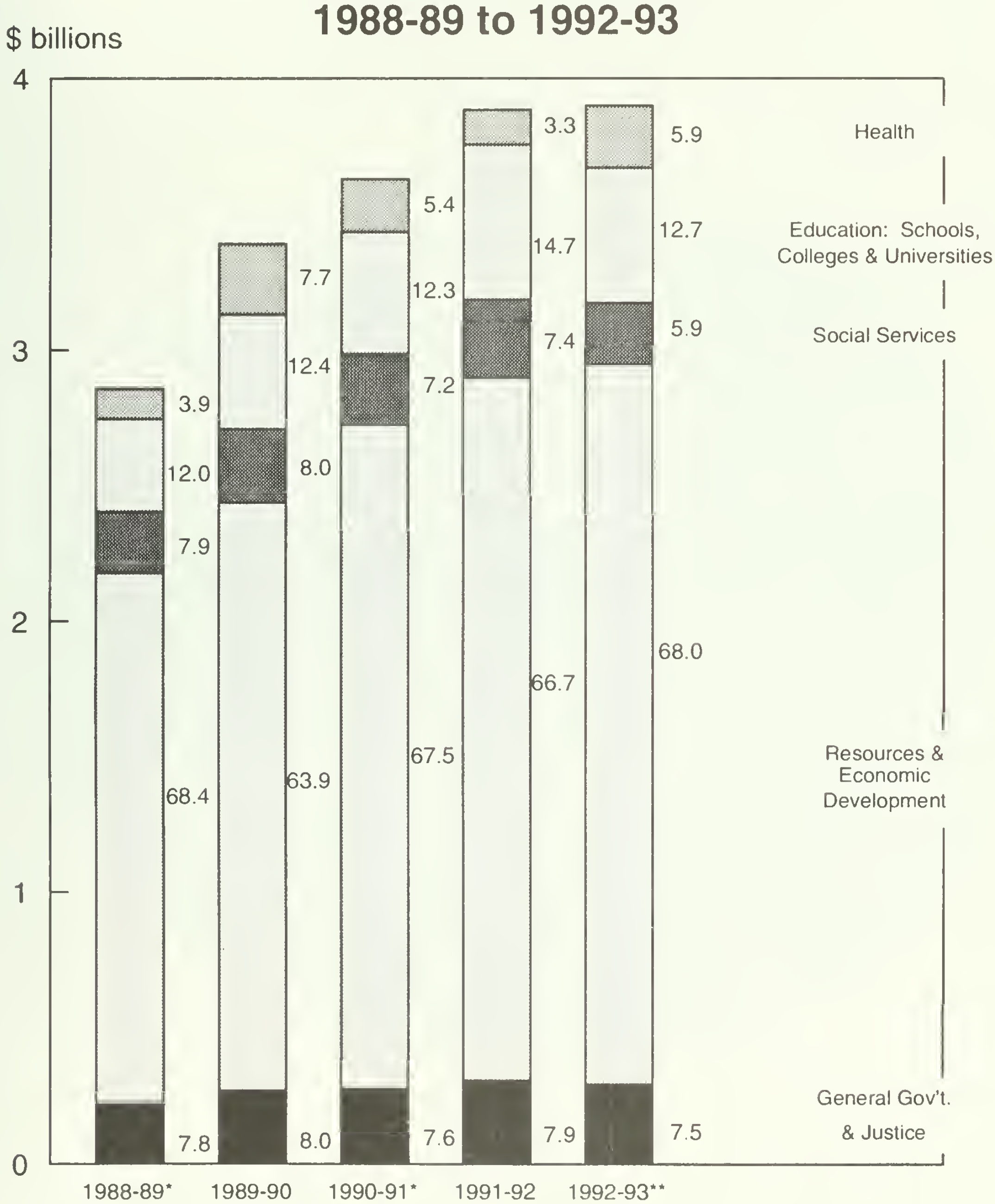
Per Cent of Total
1988-89 to 1992-93



* Excludes Advance Payments

Capital Expenditure Functions

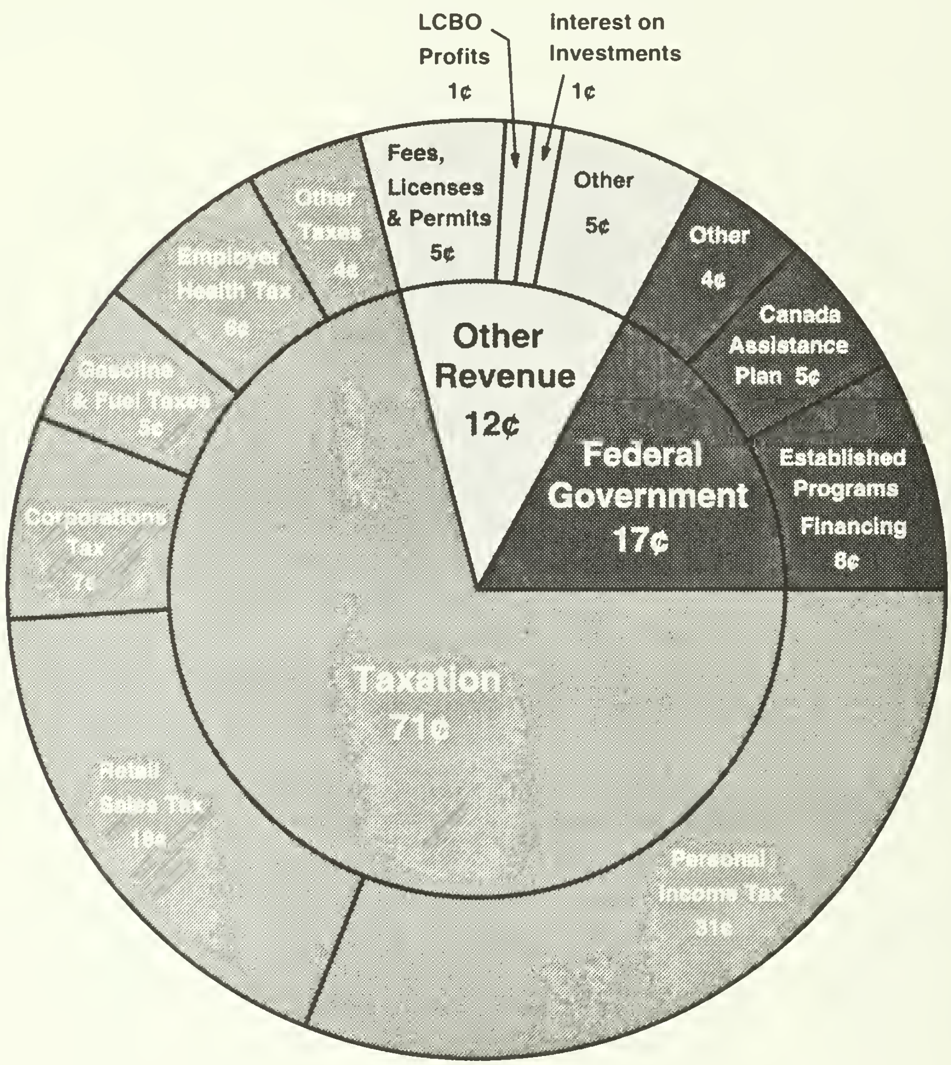
Per Cent of Total
1988-89 to 1992-93



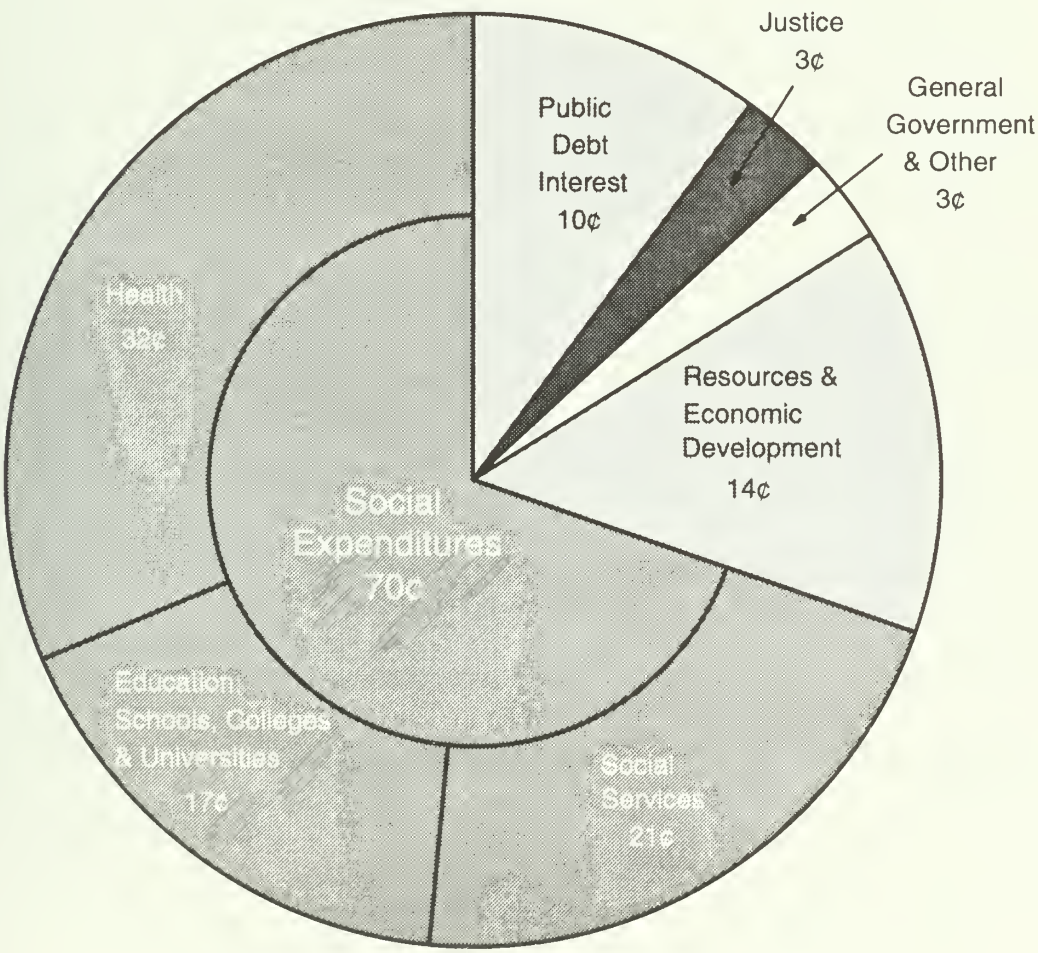
* Excludes Advance Payments

** $500 million for JOBS ONTARIO Capital Fund was prorated.

The Budget Dollar: Revenue, 1992-93



The Budget Dollar: Total Expenditure, 1992-93



BUDGET PAPER D

FEDERAL-PROVINCIAL PROGRAMS: THE NEED FOR CHANGE

Introduction

Taxation by both levels of government and federal transfers to the provinces for the financing of provincial programs have been features of Canada's federalism since Confederation. Revenue sharing and transfer arrangements have taken many forms over the years as economic and social circumstances have changed. This paper reviews the current federal transfer system, identifies the impact of recent changes on Ontario and sets out the Ontario approach to the renewal of federal-provincial transfer arrangements.

The accountability of governments to their taxpayers for the services they provide is a fundamental principle of public policy. Clear lines of accountability help ensure that people pay for and receive the services they want governments to provide.

In federal systems, however, accountability is only one of a number of principles that govern the expenditure of federal funds; other principles include an appropriate balance between federal-provincial revenues and expenditure responsibilities; fairness through equalization grants to provide for comparable provincial services at comparable tax rates; the need for universal access to essential government programs; and adequate levels of provincial expenditures in areas where benefits can "spill over" provincial boundaries. These other principles also guide the development of federal systems.

The weight given to these principles, and their influence on how revenues are raised and spent, is the essence of the fiscal history of federal states, including Canada.

The search for the appropriate balance among the competing principles of fiscal federalism has been addressed in a number of federal and provincial reports. The Rowell-Sirois Commission in 1940, for example, found the array of conditional[1] federal grants to provinces "inherently unsatisfactory". The Commission found the overlap between federal and provincial activity complicated and inefficient without clear lines of accountability for the expenditure of federal funds. The Commission's discussion and recommendations found their expression 20 years later in

---

1 Federal grants made to provinces on condition that the funds are spent for a particular purpose and in particular ways.

the implementation of Canada's largest unconditional federal grant - the Equalization program. An influential Parliamentary Committee reporting over 40 years later[2] laid the groundwork for the *Canada Health Act* - federal legislation which, together with a companion financing mechanism known as Established Programs Financing, constitutes the basis of Canada's universal health care system.

Canada's current system of federal transfers was put in place in the 1950s and 1960s and reflected the country's growing need for publicly-funded programs for health, higher education and social assistance. It became apparent during this period that the programs people wanted in these areas could not be adequately provided by provinces acting independently.

Accordingly, an implicit bargain emerged between the federal and provincial governments. Rather than the provinces independently raising all the funds necessary to fulfil their responsibilities, the federal government would, as it had in the past for other programs, raise federal taxes and transfer the resulting funds to the provinces. This arrangement allowed for two outcomes:

- through the unconditional federal Equalization program, federal taxpayers supported grants to less-affluent provinces, permitting them to offer comparable provincial services at tax rates that were in line with those in other provinces;
- through conditional federal grants to provinces for such programs as health care and social assistance, the federal government could induce provinces to provide programs that met national standards.

While the specific terms of these transfers were often the subject of contention, successive Ontario governments have supported these transfer arrangements. Fiscally capable provincial governments and the existence of key social programs with national standards fostered a sense of national community. They also promoted the free movement of people throughout the country. In whichever province Canadians chose to work, to vacation or to retire, they could be assured not only of receiving an adequate set of provincial services, but, in the case of health care and social assistance, for example, the services would be provided according to national standards.

Over the last ten years, however, and particularly in the last two, shortfalls in federal transfer funding have fundamentally altered the implicit bargain described above. The federal government has unilaterally changed funding arrangements so that significantly less federal revenue is now being transferred to the provinces than called for by the original terms of the transfers.

---

2 Report of the Parliamentary Task Force on Federal-Provincial Fiscal Arrangements, 1981 (The "Breau Report").

These federal policies have had two principal effects. First, the fiscal position of the provinces has been damaged. While the federal government forecasts a decline in its deficit, provinces are experiencing increasing difficulty in reducing their deficits while coping with growing service demands and shortfalls in federal funding. Federal funding shortfalls have contributed to a growing mismatch between the revenues available to the provinces and their expenditure responsibilities. Second, the national standards embodied in the provincial programs that are supported by federal transfers are increasingly under threat. The deterioration in the fiscal arrangements supporting health care, for example, has resulted in a situation where Canada's health care standards are under more pressure today than at any time since their adoption.

As well, federal withdrawal from commitments under transfer arrangements has not been pursued in an equitable manner across Canada. New regional criteria have been imposed on national programs. Changes to the Canada Assistance Plan are now forcing provincial taxpayers in Ontario, Alberta and British Columbia to absorb social assistance costs that are the responsibility of federal taxpayers. This is happening at a time when Ontario is experiencing the most severe economic downturn since the 1930s, with the consequent and unprecedented demands on its social assistance system.

Existing and future shortfalls in federal transfer funding threaten the consensus necessary to Canada's fiscal federalism. New arrangements are required to secure national standards in areas such as health care and to rectify the mismatch between provinces' revenues and expenditure responsibilities that federal funding shortfalls have created. The new arrangements must also assure Canadians that the resulting distribution of federal funding is fair, transparent and based on enduring agreements subject to appropriate legal protection.

The Threat to National Programs

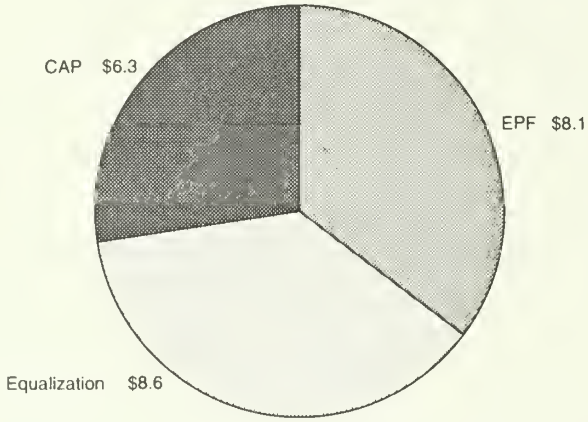
Canada's system of federal transfer payments was designed to accomplish three main objectives:

- to address an imbalance between provincial program responsibilities and provincial revenues;
- to create and maintain programs with national standards in areas of exclusive provincial jurisdiction; and
- to narrow the gap between provinces' fiscal capacities.

While there are many federal transfers directed towards these objectives, three account for over 90 per cent of total federal cash and tax transfers to the provinces: the Canada Assistance Plan (CAP), which shares in the cost of social assistance and welfare services; Established Programs Financing

(EPF), which supports nationwide systems of health care and higher education; and Equalization, an unconditional grant that raises the fiscal capacities of lower income provinces to a common standard.

Major Federal Cash Transfers



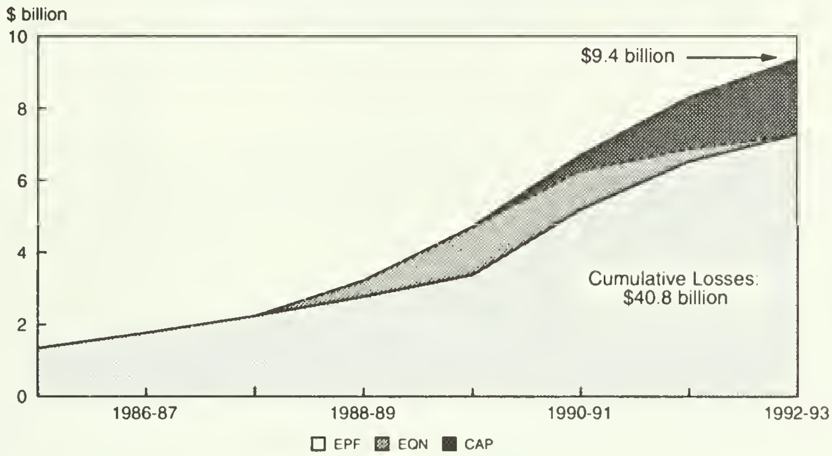
$23 billion (1992-93)

Note Does not include EPF, CAP and Quebec Youth Allowance tax point transfers, totalling an estimated $12 8 billion in 1992-93, and other smaller federal transfers totalling some $3 2 billion
Source 1992 Federal Budget

Since the early 1980s and particularly since 1990, the federal government has repeatedly changed, without consultation, the terms of these programs in ways that have greatly reduced the level of federal participation in the national programs the transfers were designed to support.

As a result of these federal actions, provinces have been forced to deal with significant losses of federal funding. Cumulative provincial losses are estimated at almost $41 billion since 1982-83. In 1992-93 alone, these federal programs will disburse 21 per cent – or $9.4 billion – less than their original terms called for. The severity of these losses is threatening the integrity of vital social programs.

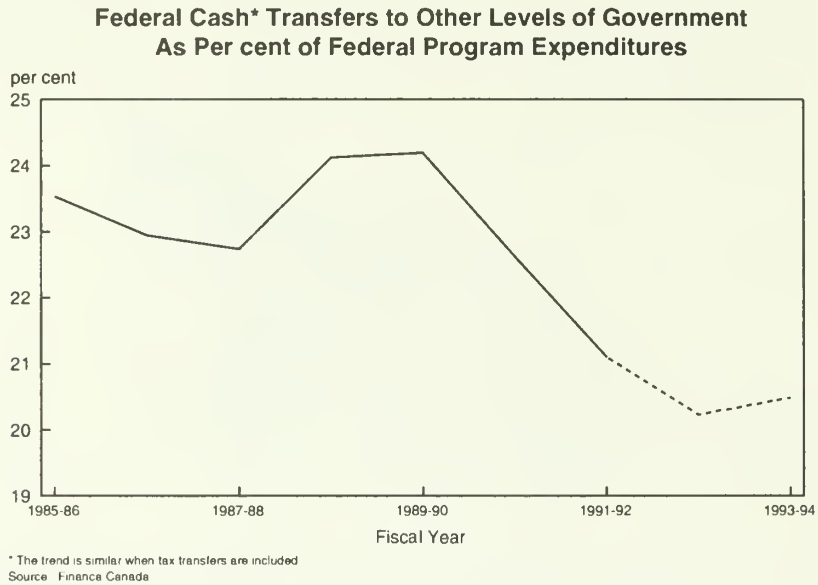
Provinces' Revenue Losses Arising From Federal Reductions to Major Transfers



Source: Finance Canada, 1992 Alberta and British Columbia Budgets, and Ontario Ministry of Treasury and Economics

Most of the provincial losses are associated with EPF – the federal transfer program for health care and higher education. However, provincial CAP losses are growing the most rapidly. The significance of Equalization losses has recently diminished, but could begin to grow again in 1993-94.

The federal government argues that the measures taken to reduce transfers from the previously legislated levels were necessary to contain the federal deficit. Moreover, the frequent federal contention has been that transfers to provinces have borne only their fair share of the burden of federal expenditure restraint.



In fact, the 1992 federal budget shows that as a result of the freezes and limits detailed in the following sections, cash transfers to other levels of government will fall from over 24 per cent of federal program expenditures in 1988-89 to just over 20 per cent in 1993-94.

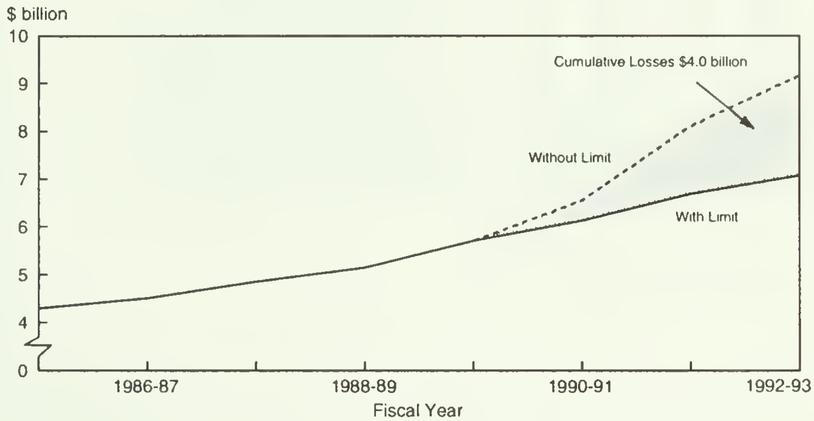
Moreover, federal withdrawal from transfer commitments has not in any sense solved the deficit problem – it has merely transferred it from the federal to the provincial governments. With that shift approaching $10 billion this year, and average all-province borrowing costs exceeding federal costs by almost one percentage point, federal policy on transfers has not only failed to decrease aggregate public sector deficits, it is increasing them by almost $100 million annually.

Canada Assistance Plan

The Canada Assistance Plan (CAP) was introduced in 1966 to provide for assistance to persons in need. It was also intended to encourage the development of certain other "welfare services," such as child care, which would reduce and prevent dependence on public assistance. Under CAP, the federal government agreed to pay 50 per cent of eligible provincial and municipal costs. In return, CAP required that benefits be available to persons in need without residence requirements and that welfare services be operated on a non-profit basis.

The 50 per cent federal share of CAP-eligible expenditures meant that federal taxpayers, wherever they lived, shared in the cost of providing for Canada's neediest people. But, until 1994-95, CAP is subject to five per cent annual growth limits for the non-Equalization recipient provinces – Ontario, Alberta and British Columbia. As a result, taxpayers in these provinces now must pay twice for these services – once to Ottawa to help finance CAP and again to their own province, to replace the CAP transfers withheld by the federal government.

Canada Assistance Plan
Provinces' Revenue Losses Due to Federal Limit

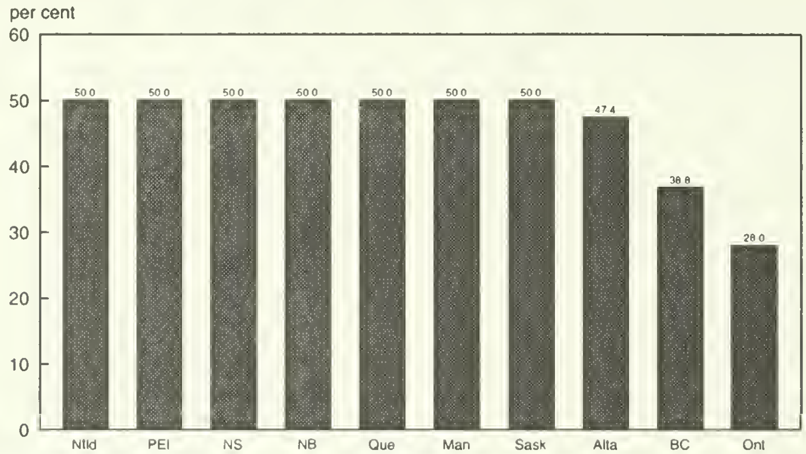


Source: Ontario Ministry of Treasury and Economics, 1992 Alberta and 1992 British Columbia Budgets

Between 1990-91, when the limit took effect, and 1992-93, CAP losses in the three affected provinces are estimated at $4.0 billion.[3] More than 85 per cent of the CAP losses have been borne by Ontario, reflecting the recession's disproportionate effect on the Province. In 1992-93 alone, Ontario's CAP losses will be $1.8 billion, which means that 29 per cent of this year's Provincial operating deficit is attributable to this single federal policy.

3 The effect of the current recession on social assistance costs has increased these loss figures well beyond earlier estimates. For example, the 1991 federal budget estimated CAP losses for the 1990/91 - 1992/93 period at $520 million.

Federal Share of Social Assistance*
Spending in 1992-93



* Includes all CAP-eligible spending
Source: Health and Welfare Canada, Ontario Ministry of Treasury and Economics
1992 Alberta and British Columbia Budgets

The distributional effect of the federal policy to limit CAP entitlements is dramatic. This year the federal government will support only 28 per cent of eligible social assistance costs in Ontario, while all other provinces except British Columbia and Alberta receive 50 per cent.

A key feature of CAP is that its design made it one of the main federal "automatic stabilizers". In periods of economic slowdown, provincial social assistance costs increase. In its original design, CAP would fully share in these increased costs through the more regionally diversified federal revenue base. To the extent this support gave rise to a need for federal deficit financing, the program would inject federally raised funds into the economy. For the three provinces subject to the ceiling, CAP no longer fulfils this original purpose.

The withdrawal of federal support through the limit on CAP expenditures raises basic questions of fairness. Ontarians have strongly supported national programs – programs that entail a significant degree of provincial redistribution through the federal tax and transfer system. The current recession, which has had a disproportionately severe effect on Ontario, has increased the social assistance needs of the Province to historically high levels. At the very time Ontario most needed the support of federal programs, the federal government significantly limited its participation.

The federal decision to withdraw partially from their CAP commitments is, therefore, unacceptable on a number of grounds:

- it has inappropriately introduced an equalization measure into a non-regionally based program;
- it has robbed the federal program of much of its ability to respond to the impact of recession; and
- it is unfair to Ontario and other affected provinces.

In order to maintain CAP's original purpose, 50:50 cost-sharing for all provinces needs to be restored.

Established Programs Financing

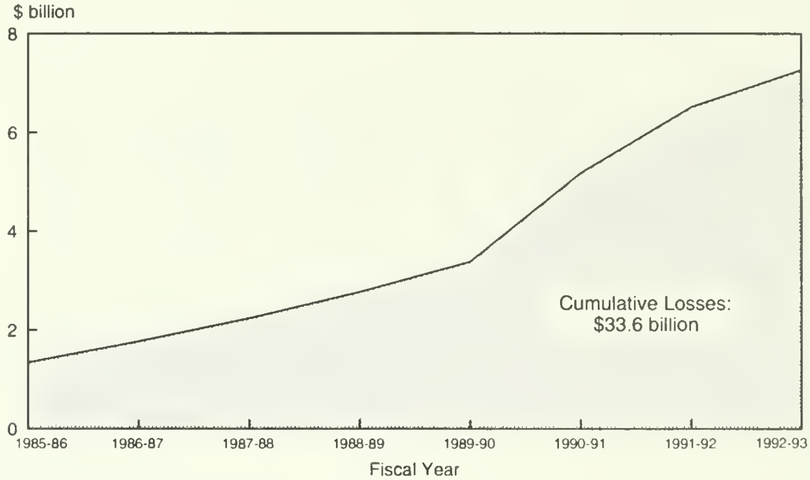
Established Programs Financing (EPF) was introduced in 1977 and replaced previous federal cost-sharing programs for hospitalization (1958), medical care (1966) and post-secondary education (1967). EPF was intended to provide provinces with equal per capita transfers that escalated with growth in Gross National Product. Per capita entitlements are delivered through a combination of cash grants and a tax point transfer.[4]

While EPF cash provides provinces with the flexibility to use the transfers according to provincial priorities, provincial health care programs must be universal, comprehensive, accessible, portable and publicly-administered. If these standards are not met, the *Canada Health Act*, enacted in 1984, calls for the EPF cash transfers to be withheld. Because the EPF cash entitlements for at least one province are expected to run out within the next decade, the federal government has recently provided for the holdback of other transfers to enforce the *Canada Health Act* standards.

---

4 In a tax point transfer, federal tax rates are reduced so that provinces may occupy the vacated tax room.

Provinces' Revenue Losses Due to Federal EPF Changes



Source Finance Canada, Ontario Ministry of Treasury and Economics

The federal government has unilaterally reduced growth in EPF transfers six times. All provinces combined will lose $7.3 billion in 1992-93 as a result of the federal limits imposed on EPF since 1982. Since 1982-83, provinces have lost almost $34 billion. As a result of federal constraints, EPF transfers have not kept pace with growth in the economy nor with expenditures on programs they were intended to support.

Ontario Revenue Losses Due to Federal EPF Changes Since 1982-83 — Table 1
($ Millions)

	Elimination of Revenue Guarantee	"6 & 5" Caps on Post-Secondary Education Allotments	2% Point Reduction in Growth	Additional 1% Point Reduction	1990 and 1991 Federal Budget Per Capita Freeze	Total Loss
1982-83	(293)					(293)
1983-84	(323)	(41)				(365)
1984-85	(354)	(90)				(444)
1985-86	(382)	(98)				(480)
1986-87	(417)	(106)	(114)			(637)
1987-88	(452)	(115)	(245)			(813)
1988-89[1]	(490)	(125)	(395)			(1,010)
1989-90[1]	(535)	(135)	(570)			(1,240)
1990-91[1]	(585)	(150)	(770)	(75)	(330)	(1,905)
1991-92[1]	(630)	(160)	(990)	(155)	(480)	(2,415)
1992-93[2]	(655)	(165)	(1,180)	(160)	(540)	(2,695)
Total	**(5,110)**	**(1,185)**	**(4,265)**	**(390)**	**(1,345)**	**(12,295)**

1 Estimates.

2 Projection.

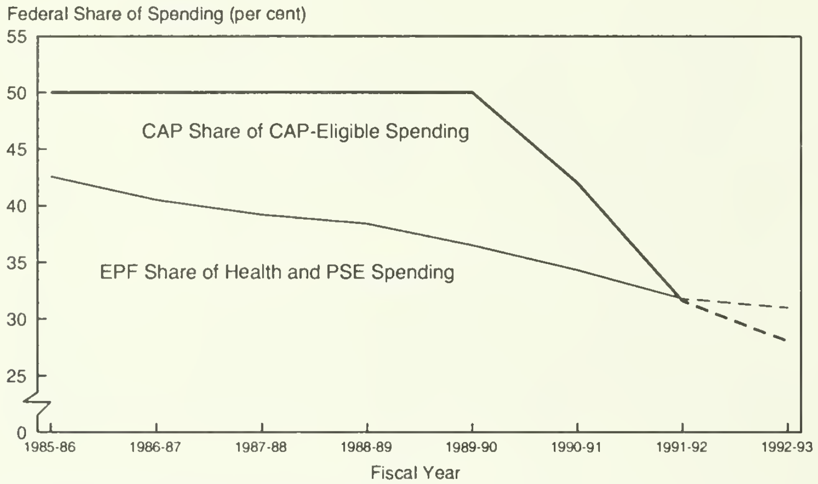
Notes: Figures may not add due to rounding.

Sources: Finance Canada and Ontario Ministry of Treasury and Economics

Limits imposed on EPF began in 1982 with the elimination of the Revenue Guarantee, an important element of the 1977 EPF arrangement, which ensured the support of provinces for EPF. Since then, the federal government has unilaterally altered the EPF formula five more times, the latest being a three-year extension, to 1994-95, of a per capita freeze on entitlements, announced in the 1991 federal budget. Ontario will lose $2.7 billion in 1992-93 as a result of changes to the terms of EPF. Since 1982-83, Ontario has lost over $12 billion (Table 1).

The federal share of Ontario's expenditures on health care and higher education has fallen from a high of 52 per cent in 1979-80 to 31 per cent in 1992-93. The following chart shows the declining federal support for health and higher education and compares it with the decline in federal support for social assistance in Ontario.

Federal Support for Social Assistance, Health and Post-Secondary Education in Ontario



Source: Finance Canada, Ontario Ministry of Treasury and Economics

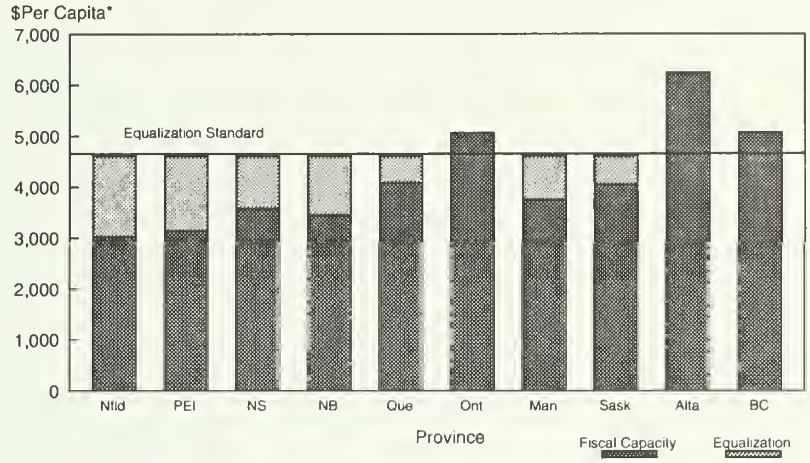
Under the original terms of EPF, total entitlements were to grow in line with the economy. The federal restraint measures outlined above reduced the average growth rate of entitlements over the 1982-83 to 1992-93 period to 5.3 per cent. Under the program's original terms, transfers would have grown at a rate almost 50 per cent higher than this. Under the particularly onerous restraint regime currently in place, EPF entitlements are expected to grow by just over one per cent until the mid-1990s. This is a fraction of the 7.3 per cent average annual nominal growth rate the federal government expects for the economy as a whole over the 1992-95 period.

Federal measures to restrict their EPF costs threaten to undermine Canada's universal health care system. A renewed federal commitment to EPF's original terms is urgently required. This would entail a restoration of federal support to more appropriate levels and a growth over time of that support at rates in line with the growth in the economy.

Equalization

The federal Equalization program was introduced in its current form in 1957. The program is intended to ensure provinces have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation. Provinces with revenue-raising capacities below a standard receive Equalization payments from the federal government.[5] Ontario, Alberta and British Columbia, with fiscal capacities above the Equalization standard, are not eligible for Equalization.

Fiscal Capacities of Provinces Before And After Equalization, 1991-92



* Revenues available to provinces from own sources at national average tax rates and Equalization on a per capita basis
Source: Finance Canada

In 1982, the federal government introduced a ceiling on growth in Equalization. This ceiling was not reached until 1988-89. From that time until 1991-92, the ceiling cost the receiving provinces $3.3 billion. In 1991-92, the ceiling effectively lowered the Equalization standard from 99 per cent to 98.5 per cent of the national average fiscal capacity.

The federal government has temporarily removed the ceiling for 1992-93 and has indicated it will pay an additional $422 million to the seven Equalization-receiving provinces this year. A similar ceiling will, however, be in effect beginning in 1993-94.

The Equalization program is an essential part of Canada's federal transfer system. Without it, the level of provincial services would vary unacceptably across the country: Canadians' access to vital public services would be affected by their province of residence. This would not only raise basic questions of fairness, it would also have undesirable economic effects. Canadians' decisions on where to work, vacation and retire would

---

5 The standard is currently defined by the average revenue-raising capacity in Quebec, Ontario, Manitoba, Saskatchewan and British Columbia. This standard was adopted in response to difficulties encountered in appropriately reflecting resource revenues as part of the Equalization formula. In 1991-92, this "five-province" standard equalled 99 per cent of the all-province average fiscal capacity - which had earlier been used as the Equalization standard.

be influenced by the variation in the quality of provincial public services. By furnishing provinces with sufficient revenues to provide comparable public services at comparable tax rates, the Equalization program enhances Canada's social and economic well-being. It is for these reasons that Ontario strongly supports the program.

The Equalization program has recently been renewed for a two-year period ending in 1994 – a period chosen to allow for a thorough review of the program. In addition to ongoing discussions relating to the measurement of fiscal capacity, two issues are likely to dominate the review; first, what standard the program should employ (together with the related question of whether a ceiling should apply to the program and, if so, what its characteristics should be) and, second, the issue of whether the program should take account of differences in the cost of providing comparable services. Ontario will participate fully in these discussions, guided by its commitment to an Equalization program equal to the objectives described in this section.

While Ontario strongly supports the Equalization program, it does not support the use of fiscal capacity and similar measures in other federal transfer programs, as has been done through federal actions limiting CAP cost-sharing in the three provinces that do not receive Equalization.

Federal transfers for health care, social assistance, training and other programs should be disbursed among provinces in ways that reflect provincial requirements for these services, not general redistributive goals. A formula for disbursing federal training funds, for example, might concentrate funds in lower income provinces rather than according to the distribution of workers needing to be trained. In this case, taxpayers in the higher income provinces would effectively pay twice for the federal training program – once to the federal government for the programs offered in other provinces and again to their own province to replace the funds diverted by the income-based formula. Adding redistributive measures to programs other than Equalization means that provincial taxpayers in some provinces are inappropriately financing nationwide redistributive arrangements. An important principle of fiscal federalism is that all taxpayers share in financing these arrangements.

Ontario Has Been Hit Hardest

The effects of federal restrictions on major transfers described above have been concentrated in Ontario. Ontario will bear almost one-half of all 1992-93 revenue losses suffered by provinces as a result of transfer limits. The impact will amount to $1,748 for a family of four in Ontario in 1992-93. All other provinces, taken together, will experience a loss of $1,130 per family of four (Table 2).

Ontario Hit Hardest **1992-93 Provinces' Revenue Losses Due to Limits on Major Federal Transfers**		**Table 2**
	$ Billions	**$ Per Family of Four***
Ontario	**4.5**	**1,748**
All Other Provinces	4.9	1,130
Total Losses	9.4	1,359

* Cost per person is $437 in Ontario and $282 per person outside of Ontario.

Source: Ontario Ministry of Treasury and Economics

Some commentators have pointed to the provincial variation in the growth rates of major federal transfers in the last half of the 1980s and have suggested that the three more affluent provinces (Ontario, Alberta and British Columbia), and particularly Ontario, have benefited disproportionately. Table 3 sets out the federal transfer growth rates for the seven Equalization-recipient provinces, the three non-recipient provinces, and Ontario. The top panel shows growth rates of federal transfers; the bottom panel shows the growth rates of federal transfers per capita.

Growth in Major Federal Transfers		**Table 3**
	1985-86 to 1989-90 Average Annual Per Cent Growth	**1989-90 to 1992-93 Average Annual Per Cent Growth**
Major Transfers to:		
Equalization-recipient Provinces	6.8	3.2
Non-Equalization recipient Provinces	7.5	2.8
Ontario	8.4	2.6
Per Capita Major Transfers to:		
Equalization-recipient Provinces	6.1	2.5
Non-Equalization recipient Provinces	5.7	1.1
Ontario	6.4	1.1

Source: Finance Canada and Ontario Ministry of Treasury and Economics

The top panel shows that in the last half of the 1980s, the 8.4 per cent growth in major federal transfers to Ontario exceeded the 6.8 per cent growth in transfers to the seven Equalization-recipient provinces. Two factors accounted for this higher growth in transfers to Ontario:

- Ontario's population grew far more rapidly than in other provinces over this period. Since these transfers are closely linked to population, either directly as in the case of EPF and Equalization or indirectly as with CAP, much of this growth reflects normal program operation in response to population-driven needs. Table 3 shows that, on a per capita basis, the 6.4 per cent growth in transfers to Ontario was similar to the 6.1 per cent growth experienced by Equalization-recipient provinces.

- During this period, social assistance reform in Ontario introduced measures to promote the transition from social assistance to the workforce and to improve benefit adequacy. These initiatives were fully consistent with the purposes of CAP and were cost-shared by the federal government. While these measures increased social assistance spending in Ontario, in 1989-90 the Province's social assistance expenditures per capita remained below the all-province average.

Since 1989-90, the rate of growth of major federal transfers to Ontario has been below the transfer growth rates in the Equalization-recipient provinces (2.6 per cent vs. 3.2 per cent). The difference is greater when population growth is taken into consideration (1.1 per cent vs. 2.5 per cent). The lower growth rate of federal transfers to Ontario in this more recent period reflects the application in 1990-91 of the limit on CAP transfers to Ontario, Alberta and British Columbia and enrichments in the Equalization program.

The federal government has limited growth in the per capita value of major transfers to Ontario to only 1.1 per cent annually since 1989-90, despite the fact that the province is facing a severe recession. The transfer system is not responding to the needs of Ontarians during difficult economic times.

Other Federal Actions

Federal funding shortfalls have not been confined to the three major transfer programs described above. Federal actions in a number of other areas have affected Ontario and Ontarians. A partial list of such actions includes:

Unemployment Insurance

- Changes in eligibility rules reduced regular Unemployment Insurance (UI) benefits by $365 million (1990 estimate).
  - This led to increased social assistance costs in Ontario that the federal government does not share, due to the growth limit on CAP entitlements.

Training

- Ontario's allocation under the Canadian Jobs Strategy was reduced by over $200 million since 1985-86.
  - While additional training funds are available under UI, these do not address the needs of those ineligible for UI (e.g. new labour force entrants, the long-term unemployed, new immigrants).

Immigration

- Ontario receives some 52 per cent of Canada's immigrants but only about 42 per cent of federal expenditures on language and settlement services, giving rise to a federal funding shortfall of about $25 million in 1991-92.
- The federal government does not permit refugee claimants to work while awaiting first hearings. The refugee claimant backlog, created by delays in the federal refugee hearing process, has increased the Province's social assistance outlays in which the federal government does not share, due to the growth limit on CAP.

Justice

- The freeze on criminal legal aid and young offenders funding has reduced Ontario's 1992-93 recoveries by over $55 million.

Housing

- The federal share of social housing spending in Ontario fell from 61 per cent to 47 per cent over the 1989-90 to 1991-92 period.
- The 1992 federal budget reduced new social housing commitments and terminated the federal Co-operative Housing Program.

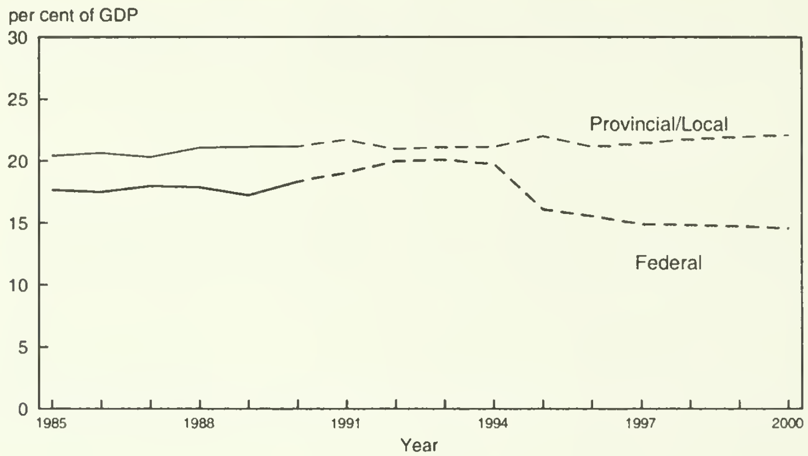
These and other federal actions have, in many instances, resulted in significantly increased costs to Ontario and to other provinces. This has contributed to an increasing mismatch between provincial expenditure responsibilities and provincial revenues.

Mismatch Between Provincial Expenditure Responsibilities and Provincial Revenues

The federal funding shortfalls explained above have reduced provincial revenues and put increasing pressure on provincial expenditures; this has led to a growing disparity between provincial expenditure responsibilities and provincial access to revenues.

According to estimates by the Economic Council of Canada, revenues required by provincial/local governments to meet their expenditure commitments and debt targets will continue to grow as a percentage of GDP; the revenues required to meet federal expenditure commitments and debt targets are, however, expected to fall in the early to mid-1990s.

Revenues Required to Meet Spending Responsibilities as a Share of GDP



Source Economic Council of Canada

Canada's system of transfer payments was designed in part to offset such imbalances. Federal constraints, however, have severely impeded this function. The needs associated with provincial social programs are growing more rapidly than federal transfer payments. From 1985-86 to 1990-91, provinces' expenditures on health, education and social services increased at an average annual rate of almost eight per cent, while provinces' revenues from federal cash and tax transfers grew at just over five per cent. The Economic Council analysis suggests that if current arrangements are maintained, these imbalances will worsen.

The growing mismatch between provincial expenditure responsibilities and provinces' revenues is another indication that the implicit federal-provincial bargain has been broken. National standards are at risk as constraints on federal transfer payments impede provinces from keeping pace with increasing costs in health, higher education and social assistance.

The Need for Reform

Canada's system of federal transfers has evolved to meet the country's changing needs. Through transfers to the provinces, the federal government was able not only to reduce the fiscal disparities among provinces, but also to create and maintain a series of national social programs that play a key role in defining the country.

The major federal transfers were essential to the development of these programs and remain essential to their maintenance. But, since 1982 and especially since 1990, constraints on the growth of major transfers have severely limited the provinces' ability to meet growing needs for health care, social assistance and other services. While these constraints have been introduced in the name of federal deficit reduction, they have come at the expense of significantly higher provincial deficits and the higher borrowing costs this entails. Overall, the cuts have increased costs for taxpayers. In addition, federal retrenchment has jeopardized the national standards embodied in the programs that the transfers support.

In supporting the cost of the major federal transfers, all taxpayers underwrite the significant degree of provincial redistribution the transfers effect. Ontarians have supported this arrangement in return for the assurance that, first, all provinces are fiscally capable of providing comparable public services at comparable tax rates and, second, that national service delivery standards are embodied in key programs such as health care.

But by limiting the federal share of social assistance costs in Ontario, Alberta and British Columbia, the federal government has created a situation in which taxpayers in those provinces effectively pay twice to maintain social assistance programming. Not only has this significantly increased the Ontario deficit, it risks endangering public support for the federal transfer system.

The national interest requires the urgent reform of the federal transfer system. Six principles will guide Ontario during the reform process:

- the federal transfer system must disburse funds in a manner that is fair, transparent and affordable to governments;
- national standards in the key provincial social programs such as health care must be secured;
- the current mismatch between provinces' revenue bases and their expenditure responsibilities must be addressed;
- the Equalization program must ensure that provinces have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation;
- other federal transfers must be disbursed in a manner related to provincial program requirements and not to general redistributive goals; and
- the federal transfer system must be based on federal-provincial agreements that have appropriate legal protection.

The reform of federal transfers according to these principles will put federal-provincial fiscal arrangements on a secure foundation and will provide for the maintenance of national standards in key social programs.

Ontario

PROTECTING OUR ENVIRONMENT
Ontario