Ontario

PROTECTING OUR ENVIRONMENT

Ontario

ONTARIO BUDGET 1994

1994 ONTARIO BUDGET

PRESENTED TO THE
MEMBERS OF THE LEGISLATIVE
ASSEMBLY OF ONTARIO BY
FLOYD LAUGHREN
MINISTER OF FINANCE
MAY 5, 1994

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1994 Ontario Budget
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Budget at a Glance **Table 1**
($ Millions)

	Interim 1993-94	Budget Plan 1994-95	Per Cent Change from 1993-94
Revenue	44,050	45,140	2.5
Operating Expenditure:			
Program Spending	43,890	43,543	(0.8)
Public Debt Interest	6,990	7,945	13.7
Total	50,880	51,488	
Operating Deficit	**6,830**	**6,348**	
Capital Expenditure*	2,600	2,200	
Budgetary Requirements	**9,430**	**8,548**	

* Excludes $854 million in alternative capital financing in 1993-94 and $1.6 billion in 1994-95.

Mr. Speaker, I rise to present the 1994 Budget of the Province of Ontario.

This Budget marks another step in the Government's plan to invest in jobs and preserve important services while bringing the deficit down.

- This Budget cuts taxes to encourage companies to hire new workers.
- This Budget expands our commitment to jobs. It moves forward with major highway and transit investments, it trains workers in new skills, and it creates employment for our young people.
- This Budget reduces overall program spending for the second year in a row, while preserving our funding commitments to hospitals, schools, colleges, universities and municipalities.
- This Budget reduces the deficit for the second year in a row, and keeps us on target to balance our operating budget by 1998.
- This Budget contains no new taxes and no tax increases.

The Government's plan is working

The Government's plan is working. Jobs are being created. We are cutting taxes to create even more. Public services are being preserved and spending is under control. The deficit is down more than 30 per cent from two years ago.

The Economy is Getting Stronger

The plan reflects our confidence in Ontario, its people and its economic future.

350,000 more jobs over the next three years

Ontario's economy is getting stronger. Growth in 1993 was the best in four years, hitting 5.3 per cent in the last quarter. Economic growth in Ontario is expected to lead the industrialized world between now and 1997. Last year, close to 80,000 new jobs were created. Over the next three years, there will be 350,000 more.

Over $21 billion in business investment this year

Ontario is getting a vote of confidence from business investors. Investment in machinery and equipment is expected to increase by over 10 per cent to more than $21 billion this year.

Major investment plans have been announced across the province — $4 billion by the auto industry, $160 million by TransCanada PipeLines in North Bay and Kapuskasing, $76 million by Domtar in Cornwall, $41 million by Bombardier in Thunder Bay, $40 million by St. Joseph Printing in Concord, $30 million by Dimona Aircraft in London.

Consumer confidence is growing too. At the end of 1993, confidence was at its highest level in more than four years. Home sales are up 30 per cent this year. Auto sales are up 22 per cent.

The economic upswing is being sustained by the underlying strength of this economy — Ontario's people and their education, skills and hard work.

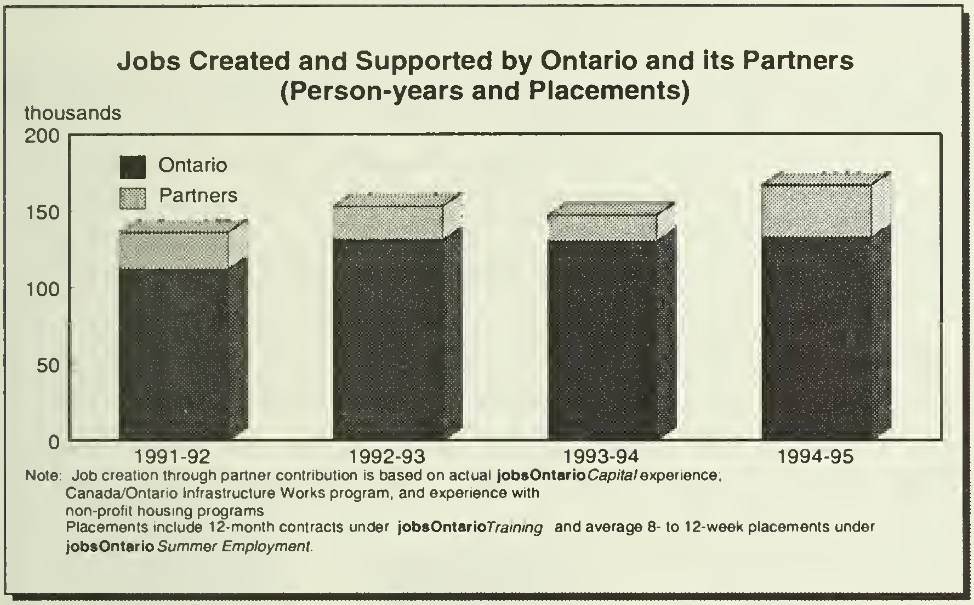
A Commitment to Jobs

The economic indicators are encouraging. But this Government knows that statistics do not ease the pain and frustration of people who want to work, but cannot find a job.

That is why we are expanding our commitment to jobs and building new partnerships with employers and workers to create new opportunities.

In each of the last three years, through investment in infrastructure and training, this Government and its partners have created and sustained an average of 145,000 jobs. This year, we will do even more — 166,000 jobs.

Figure 1



Cutting Taxes to Create Jobs

The economy has been growing, but employment has been lagging. Small and medium-sized businesses — which are the biggest generators of jobs in the economy — have told us that payroll taxes can stand in the way of new hiring.

Tax support for companies that hire new workers

To address this concern, this Budget cuts payroll taxes to provide a permanent incentive to companies to take on new workers.

Effective May 1, businesses that expand their payroll will not pay any additional employer health tax on their increased payroll for the first 12 months. That means businesses hiring additional new workers will not pay any payroll tax on those workers for their first year on the job.

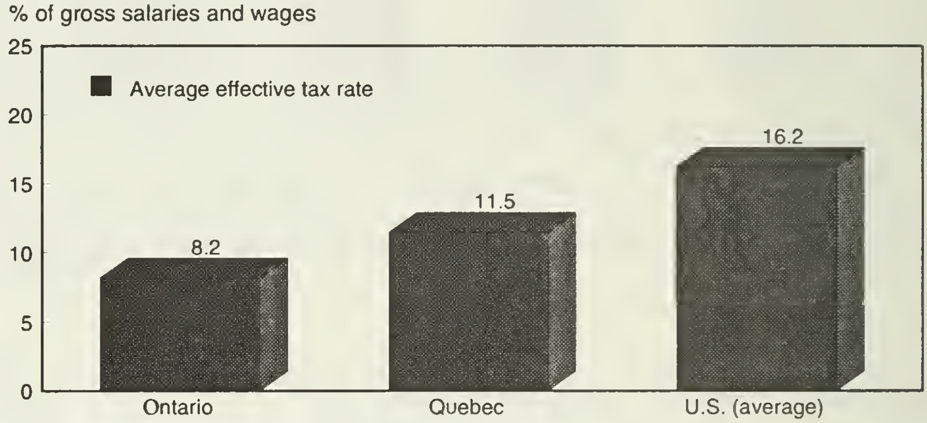
This jobs incentive will provide employers with an extra competitive edge when they hire in Ontario. The message to employers is clear: the time to hire is now.

With this measure in place, Ontario's payroll taxes and employer-paid health benefits on new employees will be 29 per cent lower than in Quebec and 49 per cent lower than the average in the United States.

This jobs incentive is a $200-million investment this year. It will mean 12,000 new jobs in Ontario.

Figure 2

Payroll Taxes On a New Employee*



* Payroll taxes include mandatory employer-paid contributions and employer-paid contributions for health care, accident and sickness. Ontario's rate reflects new EHT provisions for employers who expand their payrolls
Source: Ontario Ministry of Finance based on 1992 data from Statistics Canada and U.S. Department of Commerce.

Helping Businesses Grow in the New Economy

Support for companies that invest in R&D

This Government is supporting businesses that are creating jobs in the new economy. Many of Ontario's new high-quality jobs will come from companies that invest in research and development (R&D). When firms develop new products and services and successfully market them around the world, economic activity in Ontario increases and so does the number of jobs.

- To encourage and support companies that invest in R&D, I am introducing an innovation tax credit. This tax credit will be refundable, to ensure that small and medium-sized firms, including start-up companies, will benefit. It will provide

$35 million in assistance each year. It will reduce the after-tax cost of R&D for these firms by 10 per cent.

- The Government is increasing access to capital for small and medium-sized businesses. We will introduce legislation to remove barriers that discourage loan and trust companies and labour-sponsored investment funds from lending money to, and investing in, new businesses. We will also change the rules for co-ops to improve their capacity to obtain capital from their members and non-members. We will work with financial institutions to develop a way to collect and publish information on the loans they provide, so we can determine which types of businesses are having difficulty getting access to capital. We hope that this information will help us to work in partnership with business and financial institutions to improve financing that creates jobs, and we call on the federal government and federally regulated banks to follow our lead.

Building partnerships with businesses and workers

- We are building new partnerships within Ontario's leading sectors. Through the Sector Partnership Fund, we are bringing together business, labour, customers and suppliers to develop new initiatives like the Food Technology Centre in Guelph and the Ontario Centre for Environmental Technology Advancement in Toronto. The Minister of Economic Development and Trade will provide more details.

- We are expanding the Green Homes and Green Industries initiatives, which provide homeowners and businesses with expert advice and assistance on how to reduce waste and save water and energy. These initiatives create new customers for Ontario firms that manufacture green products. Over 11,000 jobs will be generated over three years. The Minister of Environment and Energy will provide details on this new green initiative.

jobsOntario: Creating Jobs, Building Our Province

Our **jobsOntario** investments in highways, schools, hospitals, and water and sewer facilities have played an important role in creating jobs over the last three years. The new capital corporations are doing the business of government differently. They are forming partnerships with private firms to accelerate the pace and cut the cost of building infrastructure that Ontario will need as the economy moves into the next century.

Construction on Highway 407 will create 20,000 jobs

Through the Ontario Transportation Capital Corporation (OTCC), the $1-billion Highway 407 will be completed by 1999, 16 years ahead of schedule. The 407, across the top of Metropolitan Toronto, will be one of the first all-electronic toll highways in the world. More than 20,000 jobs will be created over the next five years.

When construction is finished, a significant transportation bottleneck for our exporters and manufacturers will be eased, enhancing Ontario as a top spot for investment in the auto industry and other important sectors.

Ready to create 50,000 jobs building public transit

In Metro Toronto, construction will begin this year on new transit lines — the first new subways to be built in 16 years. Ontario is committed to making four Metro lines and the Mississauga Transitway become a reality, creating 50,000 jobs.

Through the newly created Ontario Clean Water Agency (OCWA), the Province is improving the way we build municipal water and sewer facilities. Our $350-million investment through **jobsOntario***Capital*, coupled with commitments of $405 million from our municipal partners, will fund more than 190 projects across the province, supporting 13,000 jobs over the next two years.

Through **jobsOntario***Capital*, we are also joining with our municipal partners and the federal government in the national infrastructure program. This three-way partnership will create 37,000 jobs over the next two years.

We are continuing to support jobs in the housing industry through **jobsOntario***Homes*. By the end of this year, we will be supporting

112,000 affordable non-profit homes — twice as many as in 1990.

We are assisting more people to own their own homes.

The Government will establish a $50-million Housing Loan Guarantee Fund to help lower-income families buy homes through community-based initiatives. The Province will guarantee second mortgages provided by private investors. This measure will assist individuals and families who can carry monthly mortgage payments, but who do not have access to conventional financing. The Minister of Housing will provide further details.

This Budget introduces legislation to extend the Ontario Home Ownership Savings Plan, as I promised in December. This program has helped more than 180,000 Ontarians buy their first home, and it will continue to help create jobs in the home-building industry.

Bringing Social and Economic Policy Together

The new economy, with its changing technologies and new types of work, requires renewed cooperation among labour, business and government to ensure that workers have the skills for the jobs that exist today and the jobs that will be created tomorrow.

370,000 Ontarians get training and work experience

The Government will invest over $1 billion in training, adjustment and work experience this year. More than 370,000 Ontarians will benefit.

At a time when youth unemployment remains unacceptably high, this Budget provides funds to assist nearly 90,000 young people to get valuable on-the-job experience and training this year. Over 23,000 of them will get jobs this summer through **jobsOntario***Summer Employment*. Our investment in summer employment and training for young people this year is 40 per cent higher than in 1990-91.

We are also creating jobs in partnership with communities through **jobsOntario***Community Action*. Our investment of $65 million has resulted in commitments of double that amount from community economic development partners. We will invest a further $90 million this year.

Our plan includes a commitment to overhauling social programs to help unemployed people get back into the workforce. Over the past two years, this Government has pioneered a model program that places the long-term unemployed and people on social assistance in private sector jobs that have a future — not short-term, make-work jobs.

Helping unemployed people back into the workforce

jobsOntario*Training* has created 46,000 job opportunities in private companies. People who get jobs and training through this program receive a steady paycheque. The average wage is $21,000. That means those workers can provide for themselves and for their families, and the cost to taxpayers is much less than welfare. **jobsOntario***Training* will save taxpayers at least $190 million in social assistance costs.

Helping low-income parents to participate in the workforce also means providing more of them with access to affordable child care. We have increased the number of subsidized child care spaces by 47 per cent since 1990, bringing the total to more than 68,000 spaces this year.

This Government is committed to ending welfare as we know it and replacing it with a program that helps people get jobs. This year we intend to move forward with **jobLink**, a key element of our reform strategy. This innovative program will build on the success of **jobsOntario***Training*, and will increase the number of job placements and training opportunities available to social assistance recipients. It will provide job-search skills that help people find work.

The Minister of Community and Social Services will provide details of our plans. We are looking to the federal government to support these measures by providing Ontario's fair share from the special fund for innovations in provincial social assistance programs.

Cutting the Cost of Doing Business in Ontario

We know that government has to become more efficient, more innovative and more adaptable. By providing important services to workers and employers, governments support economic expansion. But those services must be provided at an affordable cost.

A new Ontario Hydro and a revitalized WCB

This Government is turning around two huge organizations whose problems we inherited from previous governments — Ontario Hydro and the Workers' Compensation Board (WCB).

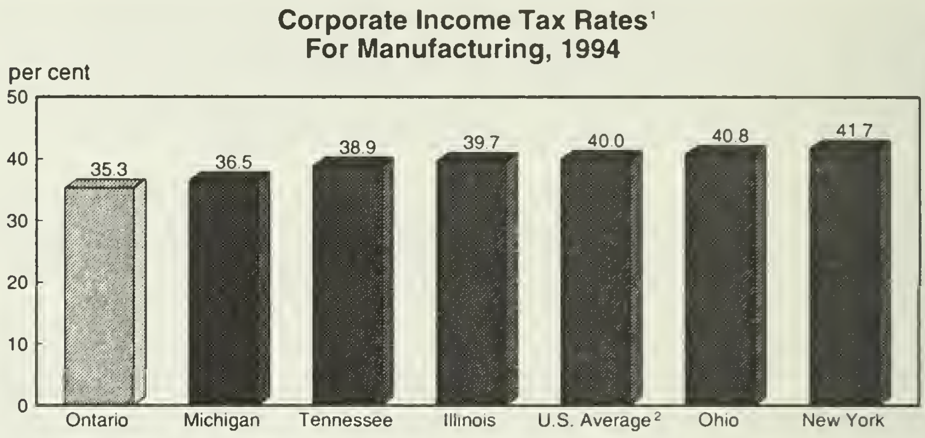
With the Government's support, Ontario Hydro is going through one of the largest corporate restructurings in Canada's history so we can keep the cost of electricity under control. This year, rates are frozen and, for the rest of this decade, increases will be no higher than the rate of inflation.

We are also tackling the growth in the unfunded liability of the WCB — another legacy of past governments. Our reforms will reduce the WCB's projected unfunded liability by $18 billion over the next 20 years, while providing decent pensions for older injured workers. We are establishing a Royal Commission to help put the WCB on a secure footing for the future. Our reforms will provide security and justice for workers while holding the line on employers' costs — and that's good for Ontario's economy.

A competitive tax system

At the same time, this Government is providing a competitive corporate tax system to attract new investment and create jobs. Ontario's corporate income tax rate for manufacturers is more than 4 percentage points below the U.S. average.

Figure 3



1. Represent highest combined (federal and provincial/state) statutory corporate income tax rates as of January 1, 1994. U.S. rates have been adjusted for deductibility of state taxes at the federal level.
2. Weighted average.
Source: Ontario Ministry of Finance

To respond to concerns that new businesses have to spend too much time on government red tape, we are moving to implement the recommendations of a business advisory committee on ways to reduce the paperwork burden. By September 1, we will introduce one-stop registration for new businesses at locations across Ontario. Beginning in 1995, we will make it possible for businesses to use a single form to remit Retail Sales Tax and Employer Health Tax. By early 1996, we will include Corporate Income Tax instalments in the single remittance process. These measures mean that Ontario's entrepreneurs can spend less time on paperwork and more time creating jobs.

Overall, this Budget takes action to help put more Ontarians back to work. We are cutting taxes to create jobs. We are helping businesses that invest in R&D. We are building the highways and subways this province needs. We are supporting training for Ontario's workers. We are helping people get back to work. We are forging a new Ontario Hydro and a revitalized workers' compensation system. And we are keeping our corporate tax system competitive. These are essential parts of this Government's plan.

Affordable Services That Work

An equally important part of our plan is ensuring that Ontario has affordable services that work. Ontarians do not want their Government to slash services. They want services that work better and cost less.

Public services that work better and cost less

A Social Contract to Protect Jobs and Services

The Social Contract is helping to protect those services. With our public sector partners, we successfully realized savings of almost $2 billion last year. As a result, we avoided up to 40,000 layoffs of public employees.

A full accounting of Social Contract savings is in Budget Paper C.

Avoiding up to 40,000 layoffs

But the Social Contract is about more than short-term savings. It is also about finding ways to provide services more effectively for the longer term. That process has begun in hospitals, in schools, in local government and throughout the public sector.

The Social Contract is providing a three-year window in which efficiencies can be implemented. When it ends, the $2 billion in annual savings cannot be built back into public sector budgets. We will work with our public sector partners to ensure the necessary efficiencies are achieved.

Preserving Medicare

Ontarians want to know that they can count on getting quality health care for themselves and their families. We are ensuring that medicare is preserved by making it affordable. During the 1980s, health care costs grew at an average rate of 11 per cent per year. Over the last three years, we have been able to provide quality health care services with no overall increase in spending.

One of the things we are doing to keep medicare affordable is introducing new health cards so that services go only to those who are entitled to them.

By controlling costs, we are able to allocate money where it is really needed, to areas like long-term care, cardiac care and cancer treatment.

Allocating health dollars where they are really needed

Long-term care in communities is being expanded so that seniors and people with disabilities can live in their own homes as long as possible. This increased support means that through the Home Care Program, for example, an extra 200,000 people are able to live independently. We are continuing to put additional resources into these programs, bringing community-based health care spending to almost $1 billion, an increase of over 50 per cent from 1990-91.

Hospitals have cut waiting time for cardiac care by two-thirds since 1989 by establishing a network to match people who need care with available beds and services.

We have launched a $15-million cancer treatment and prevention strategy, which will virtually eliminate waiting lists for bone marrow transplants and increase availability of radiation machines and technicians.

In Windsor and in dozens of other centres across Ontario, services are being carefully planned for the community, bringing together hospitals and community-based services for greater efficiency and better service. Ontario's health care system is meeting the challenges, providing excellent care to all Ontarians on an equal basis.

Better Value for the Education Dollar

Ontarians want to know their children are getting a good education. This Government has provided leadership in setting standards for our students and school systems, and in testing their progress against those standards. We have kept our funding commitments for Ontario's schools, and we are working with school boards so that more of the taxpayer's education dollar is spent in the classroom.

50 school boards are getting smaller

We are encouraging school boards to become less top-heavy. So far, fifty of the 172 school boards have decided to reduce the number of trustees.

Many boards have used Provincial funding assistance to streamline operations, share facilities and reduce duplication in such areas as administration, purchasing, busing, libraries and computer networks.

The Government is moving to provide greater fairness in the funding of our schools. We will introduce legislation so that non-residential assessment currently shared in a community will be divided more equitably among school boards. The new basis of sharing will be the number of pupils served by each board. This change will take effect in 1996 and will be phased in to allow school boards to plan their budgets.

The Royal Commission on Learning is consulting with Ontarians on the key issues facing our schools — how they are governed, what should be taught, and who is accountable for educating our children. The Royal Commission's report this fall will pave the way for significant reforms to Ontario's education system.

Putting Our Own House in Order

Just as Ontarians want us to make public services more affordable, they also want government to be less wasteful and more efficient. That's exactly what we are doing.

We are implementing a host of common-sense measures that cut costs in government. Some save millions — others save thousands. They all add up to better value for tax dollars.

Common-sense measures to save dollars

We are working with our employees and their representatives to identify savings. Through this joint process, for example, we are saving $500,000 in travel costs by making greater use of teleconference calls. And we are saving $2.2 million by replacing courier services with electronic mail and fax networks and using a new mail-coding system.

We are eliminating a million pieces of paper a year by improving internal accounting processes.

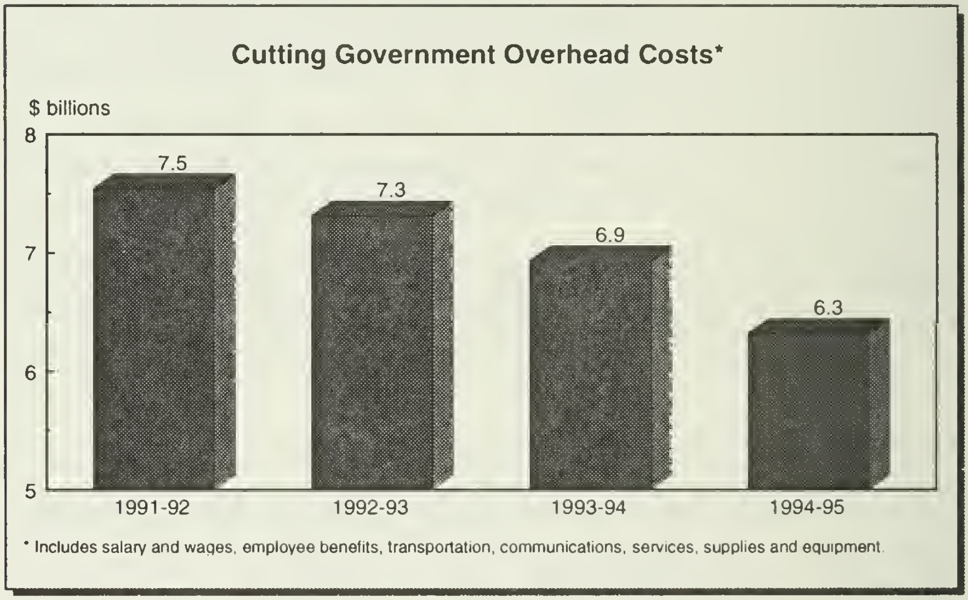
We have saved $42 million a year by cutting the number of ministries from 28 to 20.

Cutting government overhead by 16 per cent

We have reduced the size of the Ontario Public Service by more than 4,500 positions, with almost no layoffs, and we expect to achieve our target of 5,000 this year.

In total, we have reduced the Government's overhead costs by 16 per cent, or $1.2 billion, in the last three years.

Figure 4



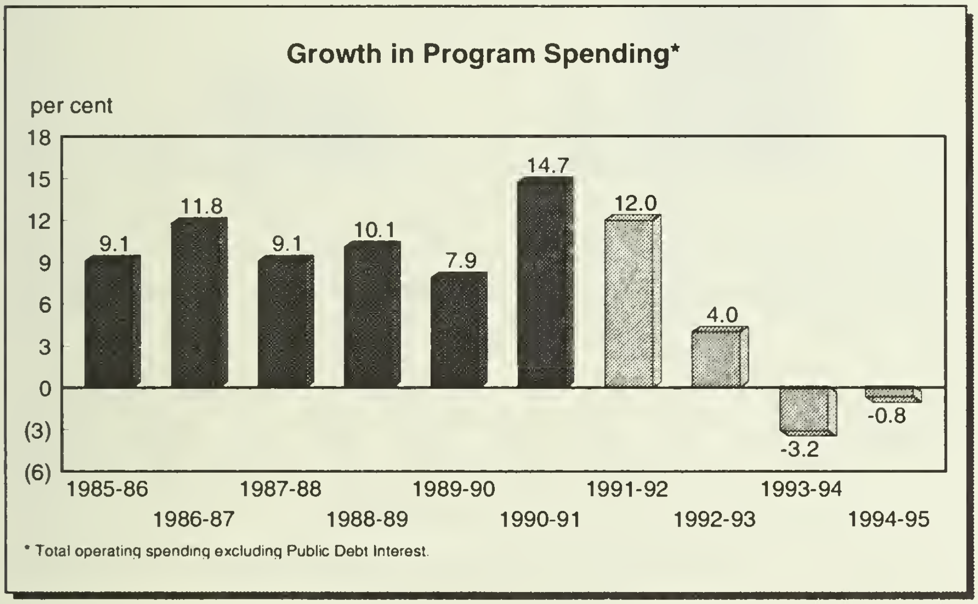
We are saving $350 million by managing social assistance better, cracking down on fraud and making sure benefits go to those in need.

This session, the Government will ask members for speedy passage of legislation to make government work even better. We will introduce a bill that will change statutes and regulations to cut red tape, reduce costs to taxpayers and improve services to the public. And as more efficiencies are identified, we will bring forward changes every year.

Reducing the Deficit

The steps we have taken to control spending, to cut out waste and duplication, and to find new ways to provide services more efficiently have allowed us to reduce the deficit and to keep it going down.

Figure 5

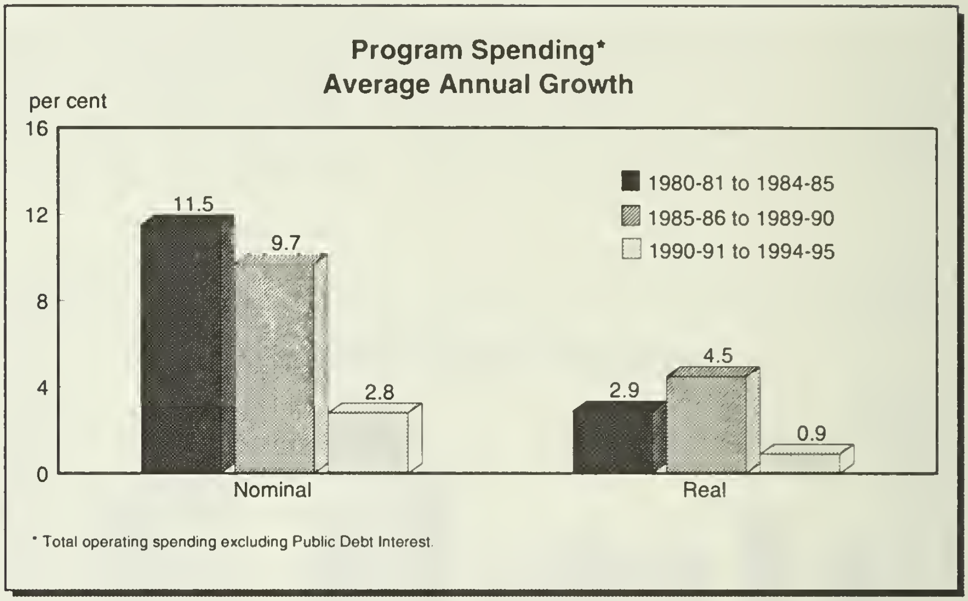


We are reducing government spending. Last year the cost of government programs fell — for the first time since 1942. And this year our program spending will decline again.

Reduced program spending for the second year in a row

Even after adjusting for differences in inflation, the growth in program spending under this Government has been far lower than under our two predecessors.

Figure 6



A year ago we said that, with the support and commitment of Ontarians, we would bring the 1993-94 deficit below $10 billion. Today I can tell Ontarians: with your help, we have done exactly that. Last year's deficit came in at $9.4 billion.

Cutting the deficit by more than 30 per cent

This year, our deficit will be even lower at $8.5 billion. That is a cut of more than 30 per cent from two years ago.

A Fair Share for Ontarians

Our revenue projection for this year, which is based on cautious assumptions, is still far from buoyant. In part this reflects the fact that Ontarians are not getting their fair share from the federal government — for social assistance, for training or for new immigrants.

We had hoped that the new federal government would restore Ontario's fair share of funding. But instead it has continued to shortchange this province, as did its predecessor.

Premier Rae has said clearly: We welcome the prospect of improvements in the efficiency and delivery of social programs and in the fiscal and practical arrangements between the two levels of government. But any such reform must reinforce, not undermine, Canada's record as a compassionate society. Reform must come about through genuine joint decision-making.

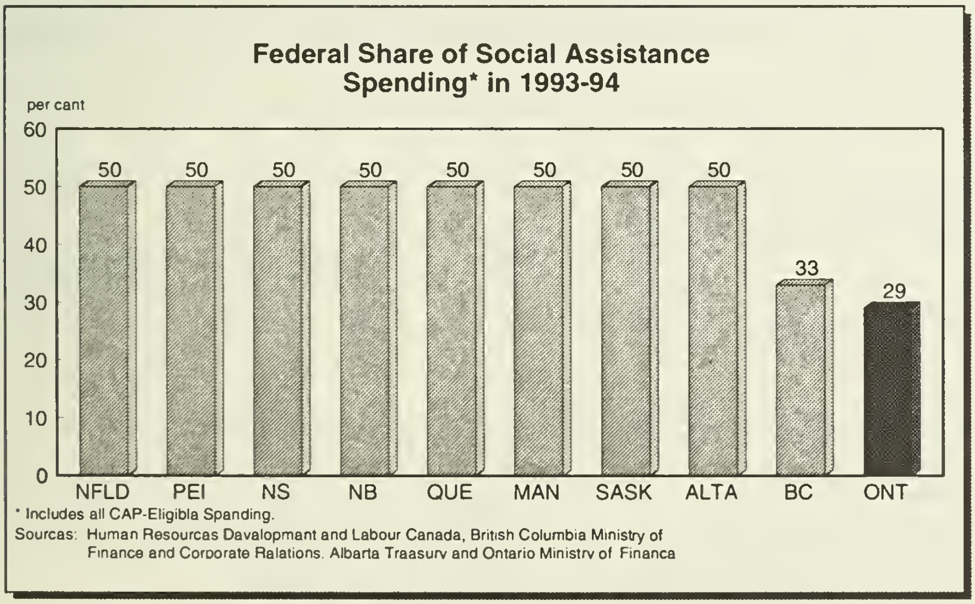
We have said repeatedly that reform must not be achieved by off-loading costs to the provinces, and there must be an immediate end to discriminatory treatment against Ontarians.

The record in this area to date is far from encouraging. Ontario taxpayers are getting shortchanged by Ottawa.

Let me cite two examples.

In eight provinces, the federal government provides 50 per cent of the cost of social assistance under the Canada Assistance Plan (CAP). But in Ontario — which was hit hardest by the recession — the federal government pays only 29 per cent. This means Quebec gets $3,300 for every social assistance recipient. Ontario gets $1,800. That one measure to deny Ontario its fair share will cost this province $1.7 billion this year.

Figure 7



It is the same story for training. Ontarians make up 38 per cent of Canada's labour force. But we receive only 27 per cent of available federal funds for training and adjustment.

Ontario had no choice but to cut our tobacco taxes when the federal government and Quebec made their deal to reduce taxes. That measure cost us another half-billion dollars in lost revenues.

A Balanced Operating Budget in 1998

Managing our budget without raising taxes

Despite revenue shortfalls, we are preserving services in hospitals, in schools, in towns and cities across this province. And we are doing so without raising taxes.

We are bringing the deficit down in a balanced and responsible way. To reduce the deficit even more this year would slow the recovery and job creation and undermine the services Ontarians value.

This Budget introduces measures to harmonize Ontario corporate income taxes with the federal *Income Tax Act*. All of the revenues from these new measures are being redirected to the job-creating tax cuts in this Budget. Budget Paper A provides details on these measures.

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

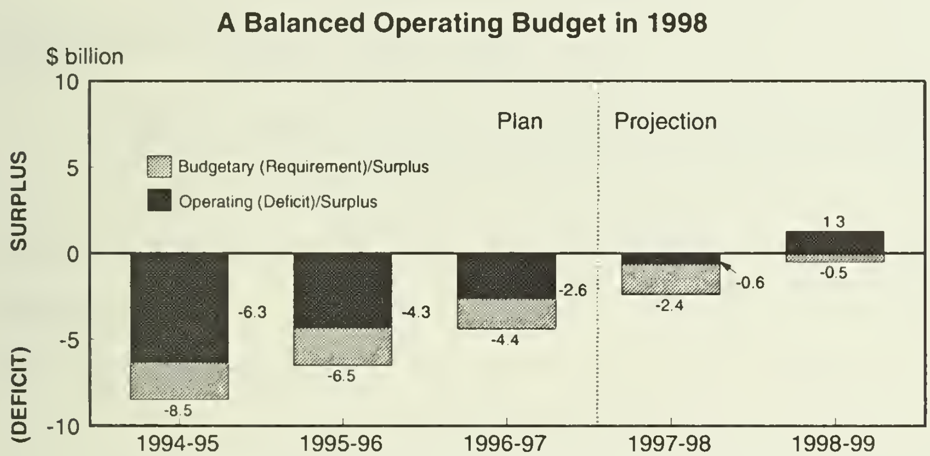
	1994-95	**1995-96**	**1996-97**
Revenue	45.1	48.3	50.8
Operating Expenditure			
Programs	43.5	44.1	44.6
Public Debt Interest	7.9	8.5	8.8
Total	51.5	52.6	53.4
Operating Deficit	**6.3**	**4.3**	**2.6**
Capital Expenditure*	2.2	2.2	1.8
Budgetary Requirements	**8.5**	**6.5**	**4.4**

* Excludes alternative capital financing of $1.6 billion in 1994-95 and $1.9 billion in 1995-96 and 1996-97.

Note: Totals may not add due to rounding.

The measures we introduced a year ago put Ontario's finances on a course that will lead to a balanced operating budget in 1998. With the measures in this Budget, we will stay on track to meet that target. By continuing to hold program spending growth below the rate of inflation, Ontario will achieve a balanced operating budget in 1998.

Figure 8



Note: The difference between the budgetary requirement/surplus and the operating deficit/surplus is equal to the budgetary capital expenditure. For 1997-98 and 1998-99, budgetary capital expenditure is assumed to be $1.8 billion. Other assumptions are detailed in Budget Paper C.

Conclusion

The Government's plan is working

In summary, this is a Budget that looks to the future with confidence.

Under the courageous and compassionate leadership of Premier Bob Rae, this province is charting a strong and confident course.

Jobs are being created — 350,000 of them in the next three years.

This Government is expanding its commitment to jobs.

We are cutting taxes to encourage employers to hire new workers.

We are moving forward with major highway and transit investments and innovative job programs.

We are supporting firms that are investing in Ontario and creating new markets around the world.

This Government is providing affordable services that work.

Vital public services, like education and medicare, are being preserved and improved.

This Government is getting better value for tax dollars.

Spending is under control and the deficit is down.

We are on track to balance the operating budget in 1998.

There are no new taxes, and no tax increases.

The Government's plan is working. We are building a stronger Ontario for today and tomorrow.

BUDGET PAPER A
DETAILS OF REVENUE MEASURES

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

TAXATION REVENUE MEASURES

Employer Health Tax Act

Effective May 1, 1994, employers will not have to pay the Employer Health Tax on the amount by which the payroll in the calendar year exceeds that of the previous calendar year.

Application

Tax Liability for a year

- The tax liability for a year will be based on the lesser of that year's payroll or the previous year's actual and/or deemed payroll.
- A deemed payroll will apply where a new or existing employer acquires an ongoing business.
- Associated companies must aggregate their payroll when determining the lesser-of rule.

Instalments

- Instalments will continue to be calculated and paid on the current basis.
- Employers will not be required to remit any further instalments for a year once their cumulative payroll for that year equals the payroll of the previous year.

Start-ups

- New employers starting after April 1994 will not pay Employer Health Tax during their initial calendar year of operation, unless they acquire an ongoing business. However, they are required to register.

Exclusions

- This measure will not apply to public sector employers, including: federal, provincial and municipal governments, universities, colleges, school boards and hospitals. As well, trusts, pension corporations, municipal corporations and associations of universities and colleges that are exempt from income tax under section 149(1) of the *Income Tax Act* (Canada) will be excluded.

1994 Transitional Rules

Tax Liability for the year

- The tax liability will be based on the payroll to April 30, 1994 plus the lesser of the actual and/or deemed payrolls from May to December, 1993 and the corresponding period in 1994.
- For a start-up that commenced operation in 1994, but before May:
  - If an annual filer, the tax liability will be based on the 1994 payroll multiplied by the ratio that the number of days in operation before May is of the total number of days in operation in 1994.

Instalments

- An employer will not be required to remit further instalments for 1994 once the cumulative amount of its payroll after April 1994 exceeds its 1993 payroll after April 1993.

- A start-up that commenced operation before May will not be required to pay further 1994 instalments otherwise due after April 1994.
- A start-up that commenced operation after April 1994 will not be required to pay 1994 instalments.

All enquiries regarding employer health tax changes should be directed to:

Employer Health Tax Branch
Ministry of Finance
P.O. Box 627
33 King Street West
Oshawa, Ontario
L1H 8H5

English: 1-800-263-7965
French: 1-800-668-5821
Telephone Device for the Deaf (TDD):
1-800-263-7776

The Corporations Tax Act

The Ontario Innovation Tax Credit

- Effective January 1, 1995, Ontario will provide a 10 per cent refundable Ontario innovation tax credit (OITC) to qualifying small and medium-sized Canadian-controlled private corporations (CCPCs) having a permanent establishment in Ontario for expenditures in respect of scientific research and experimental development (SR&ED) carried on in Ontario.

Qualifying Expenditures

- The OITC will apply to qualifying expenditures only.
- Qualifying expenditures are expenditures in respect of SR&ED carried on in Ontario eligible for the enhanced and refundable federal SR&ED investment tax credit for small CCPCs.
- Such qualifying expenditures will be reduced by government assistance, non-government assistance and contract payments.
  - Government assistance will not include the OITC and SR&ED investment tax credits.
  - Contract payments will not include amounts obtained by a qualifying CCPC to carry out SR&ED in Ontario for or on behalf of a specified corporation.
  - A specified corporation will be a corporation that does not qualify for the OITC or the Ontario Research and Development Super Allowance and does not receive payments for SR&ED from other persons that are eligible for the OITC or the Super Allowance.
- Corporations claiming the OITC will be required to substantiate that the SR&ED was carried on in Ontario.
- The OITC will be available in respect of qualifying expenditures up to a limit of $2 million on an annual basis, subject to the federal limits on the enhanced and refundable investment tax credit.

Tax Credit

- The OITC rate will be 10 per cent.
- The OITC will be fully refundable and will apply to 100 per cent of qualifying current expenditures and 40 per cent of qualifying capital expenditures.

Effect on Super Allowance

- In calculating the allowable deduction for the Super Allowance, the OITC claimed in the taxation year will reduce the net eligible qualifying expenditures in the taxation year and the expenditure base for subsequent years.

Limitations on Qualifying for the OITC

- Qualifying small CCPCs must be CCPCs throughout the taxation year.
- Qualifying small CCPCs will be corporations whose federal taxable income and taxable capital (for federal Large Corporations Tax purposes) in the preceding taxation year did not exceed $200,000 and $10 million, respectively.
- Where these limits are exceeded, Ontario will apply the federal graduated phase-out regime including the measures in the 1994 Federal Budget:
  - Where a CCPC's federal taxable income exceeds $200,000 in the preceding taxation year, the qualifying expenditure limit of $2 million will be reduced. The qualifying expenditure limit will be phased out where federal taxable income is between $200,000 and $400,000 and is reduced to zero when federal taxable income reaches $400,000, and
  - The qualifying expenditure limit of $2 million will be reduced where the CCPC's taxable capital exceeds $10 million in the preceding taxation year. The qualifying expenditure limit will be phased out for those CCPCs with taxable capital between

$10 million and $15 million and is reduced to zero when taxable capital reaches $15 million.

- Associated CCPCs will be required to share the qualifying expenditure limit and combine the above limitations.

Refunds

- Refunds in respect of a taxation year will be issued following the assessment or reassessment of the qualifying CCPC's income tax return for that taxation year.
- The OITC will be applied first against any other outstanding Ontario tax liabilities. Any amount remaining after payment of such liabilities will be refunded to the taxpayer.

Effective Date

- This measure will be effective for taxation years ending after December 31, 1994. The OITC will be prorated for taxation years straddling December 31, 1994 based on the number of days in the taxation year after 1994. The OITC will also be prorated for corporations with short taxation years that straddle December 31, 1994.

All enquiries regarding corporations tax changes should be directed to:

Corporations Tax Branch
Ministry of Finance
P.O. Box 622
33 King Street West
Oshawa, Ontario
L1H 8H6

English: 1-800-263-7965
French: 1-800-668-5821
Telephone Device for the Deaf (TDD):
1-800-263-7776

ADMINISTRATIVE, TECHNICAL AND CONSEQUENTIAL AMENDMENTS

- The *Fuel Tax Act* will be amended to allow Ontario to apply to join the International Fuel Tax Agreement effective January 1, 1996. This will reduce the administrative burden for Ontario truckers as they will only have to file one fuel tax return with Ontario rather than with each of the jurisdictions in which they travel.
- To ensure equitable treatment, delivery charges for sand, clay, soil, gravel and unfinished stone will be exempt of retail sales tax effective midnight tonight.
- To complement amendments to the *Labour Sponsored Venture Capital Corporations Act*, the *Income Tax Act* will be amended to permit the carry forward of entitlements to tax credits for investments in an employee ownership labour sponsored venture capital corporation where the investment exceeds $15,000 in the year.

Concordance with the Income Tax Act (Canada)

- The *Corporations Tax Act* will parallel the changes proposed in the 1994 Federal Budget with respect to the following:
  - securities held by financial institutions;
  - reserves of insurance companies;
  - foreign affiliate rules;
  - debt forgiveness and foreclosure rules;
  - divisive corporate reorganizations;
  - tax shelter investments: the capital gains treatment of any negative adjusted cost base of certain partnership interests, capital cost of films and videotapes;
  - accelerated capital cost allowances for equipment acquired by a taxpayer to reduce water or air pollution (Classes 24 and 27) and certain energy conservation equipment (Class 34); and

- the deductibility of contributions to qualifying mine reclamation trust funds pursuant to a statutory obligation to make such contributions.

Ontario Home Ownership Savings Plan Act

- In accordance with the announcement made in December 1993, the *Ontario Home Ownership Savings Plan Act* (OHOSP) will be amended to extend the program indefinitely.
- The definition of spouse will be amended to parallel the definition used in the federal *Income Tax Act*.
- Other administrative amendments will be introduced to ensure effective administration of the OHOSP Act.

Land Transfer Tax Act

- The December 1993 OHOSP announcement also noted that the land transfer tax refund will not be available to those opening plans after December 31, 1993. The *Land Transfer Tax Act* will be amended to reflect the eligibility restriction for refunds to those individuals who opened an OHOSP prior to January 1, 1994.

All enquiries regarding OHOSP changes should be directed to:

Tax Credits and Grants Branch
Ministry of Finance
P.O. Box 624
33 King Street West
Oshawa, Ontario
L1H 8H8

English: 1-800-263-7965
French: 1-800-668-5821
Telephone Device for the Deaf (TDD):
1-800-263-7776

Revenue Changes: 1994 Budget Fiscal Impact Summary
($ Millions)

	Fiscal 1994-95	Full Year
Taxation Revenue Measures		
EHT Holiday for new hires	(200)	(295)
Refundable Innovation Tax Credit	(1)	(35)
Administrative, Technical & Consequential Amendments		
Paralleling federal corporate income tax measures	25	30
OHOSP Extension	0	(25)
Net Impact of all Revenue Changes	**(176)**	**(325)**

Source: Ontario Ministry of Finance

BUDGET PAPER A APPENDIX

Access to Capital Legislative Changes

This Appendix to Budget Paper A provides further information on the Amendments to the *Loan and Trust Corporations Act* (LTCA), the *Co-operative Corporations Act* (CCA) and the *Labour Sponsored Venture Capital Corporations Act* (LSVCC), which were outlined in the Budget statement.

As necessary, the Government will introduce legislation to amend the following statutes with respect to the provision of information on lending by financial institutions: *Loan and Trust Corporations Act, Credit Unions and Caisses Populaires Act* and *Insurance Act*.

Amendment Details — Loan and Trust Corporations Act

The *Loan and Trust Corporations Act* contains a variety of provisions that limit the ability of trust companies to lend to businesses in Ontario and to contribute to the growth of the Ontario economy.

The following amendments are designed to replace these provisions with flexible, modern regulatory standards. Trust companies in Ontario will be allowed to undertake a broader range of business lending and investment. At the same time, these amendments will ensure that appropriate safeguards are in place to protect Ontario depositors.

The amendments will:

- **Replace the statutory list of eligible investments with modern "prudent portfolio" standards**

  Currently, lending and investment by trust companies in Ontario is limited to the list of eligible investments contained in the LTCA. This statutory list restricts the ability of trust companies to pursue new lending opportunities.

  The amendments will provide trust companies with greater flexibility. Under the "prudent portfolio" standard, companies will be required to lend as a prudent person would to avoid undue risk and obtain a reasonable return. Companies will be required to maintain a diversified portfolio as established in their lending policies and in the regulations.

- **Remove restriction on investing in and lending to companies less than five years old**

  The LTCA currently does not allow trust companies to lend to or invest in businesses that have been in operation less than five years. This prevents trust companies from investing in those start-up enterprises or newly formed businesses that need capital and are good credit risks.

- **Remove statutory description of commercial loans as payable on demand or in less than one year**

  The LTCA's current description of commercial lending restricts the ability of trust companies to provide longer term commercial lending for Ontario businesses.

  This amendment will provide for a new definition of commercial lending to be set out in the regulations, and to be harmonized with modern standards in other jurisdictions.

- **Remove statutory restrictions limiting commercial loans to 20 per cent of assets**

  Trust companies now face statutory caps on the total dollar amount of commercial lending they can undertake. When coupled with the restrictive definition of commercial loans now in the statute, the 20 per cent cap significantly constrains business lending by trusts.

  The amendments will remove this statutory limit. Trust companies will be required, however, to obtain the Superintendent's approval to undertake commercial lending.

  The 20 per cent cap will also be removed for consumer lending.

- **Permit trust companies to own a broader range of subsidiaries**

  The current LTCA allows trust companies in Ontario to own a limited range of subsidiaries, which constrains their ability to organize their business in a cost-effective and competitive manner.

  Consistent with most other financial institutions, trust companies will now be able to establish or acquire a broader range of subsidiaries, including financial services corporations.

- **Permit the issuing of letters of credit**

  The LTCA prohibits trust companies from issuing letters of credit, an important financing tool for many businesses in Ontario.

  The amendment will remove this prohibition to allow trust companies to provide a fuller range of financial services to Ontario businesses.

- **Remove the requirement that subordinated debt have a minimum denomination of $100,000**

  The LTCA's current requirement that subordinated debt be issued in minimum denominations of $100,000 will be removed.

  As a result of this amendment, trust companies will be able to raise capital to support lending in a cost-effective manner and on the same basis as most other financial institutions.

Amendment Details — Co-operative Corporations Act

The *Co-operative Corporations Act* establishes the basic framework within which all Ontario co-ops must operate. This Act currently places significant constraints on co-operatives' ability to raise capital from both members and non-members. This makes it difficult for co-operatives to participate fully in the province's economic renewal. For co-operatives to take advantage of expanded opportunities for growth in Ontario, enhanced access to capital is needed. By improving co-operatives' access to member and non-member capital, these amendments will facilitate the use of the co-operative model of enterprise as a flexible, participatory mechanism for community economic development.

The amendments will:

- **Establish a framework for membership and investment shares**

  Creating a framework for membership (common) and investment (preferred) shares will help co-ops attract outside capital, while preserving traditional democratic control by members.

- **Allow limited appreciation of preferred shares**

  Limited share appreciation will increase the attractiveness of co-op shares by providing investors with inflation protection.

- **Remove the cap on the rate of return on investment shares**

  This will enable co-ops to provide risk-adjusted rates of return, thereby enhancing co-ops' access to the venture capital required for higher value-added activities.

- **Permit issuance of non-retractable shares**

  This will help build co-ops' permanent capital base.

- **Provide special voting procedures for multi-stakeholder co-ops**

  This will enable partnerships to be formed between producers, suppliers, business consumers and workers in a co-operative as a means of attracting capital from these various partners.

- **Facilitate the raising of capital on quasi-public markets**

  Expand exemptions from offering statement requirements for small co-ops.

  Clarify rights of non-member investors.

  Enhance investor confidence through appropriate disclosure requirements for non-member investors.

- **Permit the continuation of business corporations as co-operatives**

  This will allow workers to convert the companies in which they are employed to worker co-operatives.

Amendment Details — Labour Sponsored Venture Capital Corporations Act

The *Labour Sponsored Venture Capital Corporations Act* authorizes the Ontario Investment and Employee Ownership Program. The program has two sides. One side, Employee Ownership Corporations (EOs), encourages employees to buy control of their employer's business through investment in an EO. The other side, Labour Sponsored Investment Funds (LSIFs), encourages the creation of venture capital funds, sponsored and controlled by labour organizations, to channel capital from individual Ontario investors into small and medium-sized businesses. Investors in EOs and LSIFs are entitled to incentives in the form of income tax credits. Changes will be made to both sides of the program to simplify and reduce the cost of the employee buy-out process, increase the pool of employee buy-out capital, and facilitate access to LSIF capital for innovative small to medium-sized businesses.

The amendments related to EOs will:

- **Permit investments by former and prospective employees**

  Allows both former employees who are re-hired and potential new employees to invest in an EO. This would increase the potential pool of capital available at the early stages of the employee buy-out.

- **Permit up to $150,000 investment in first year**

  Employees will be allowed to invest as much as $150,000 of the existing $150,000 lifetime investment limit in the first year of a proposed employee buy-out when a large capital infusion is most likely to be needed. The existing maximum annual tax credit of $4,150 would still apply.

- **Streamline process for buy-outs**

  In order to simplify and reduce the cost of accessing the program, review by the Employee Ownership Advisory Board will be eliminated for buy-outs of firms with under 500 employees and $50 million in assets.

  The process will be further streamlined for businesses of all sizes by having program administrators, instead of the Ontario Securities Commission, approve the financial disclosure document to be made available to all employees involved in a buy-out.

The amendments related to LSIFs will:

- **Expand ministerial discretion regarding the net new equity requirement**

  Currently LSIFs are permitted to purchase only newly issued shares in eligible businesses, and eligible businesses are restricted in the way they use investment proceeds from LSIFs.

The proposed changes would permit LSIFs to invest in previously issued equity of a target business so that LSIFs can exercise the right of first refusal.

The proposed changes would, in limited circumstances, also permit an eligible business to use LSIF investment proceeds to acquire securities, return capital to a shareholder or partner, or for reinvestment outside Canada that ensures viability of the Ontario business.

- **Extend eligibility of businesses that grow beyond size limits**

  Investee businesses that grow beyond $50 million in assets and 500 employees, after the initial LSIF investment, will remain eligible provided that the LSIF makes commensurate investments in businesses smaller than $5 million in assets.

- **Expand relief from the control restriction**

  Generally, LSIFs are precluded from controlling the businesses in which they invest. LSIFs will now be permitted to take a controlling interest in eligible businesses to facilitate investment in start-up or early stage situations and to make follow-on investments.

BUDGET PAPER B
ONTARIO'S ECONOMIC OUTLOOK: 1994-1997

Highlights

- Ontario's core economic strengths — its highly educated work force, its well-developed infrastructure, and its competitive cost structure — position the province favourably for strong and sustainable growth.
- The Ontario economy is gaining momentum. Real GDP is forecast to grow by 3.3 per cent in 1994, by 3.8 per cent in 1995, and by an average of 4.4 per cent over 1996 and 1997.
- Employment continues to grow and over 100,000 net new jobs will be created over the next twelve months. Ontario employment is expected to expand by an average 117,000 jobs annually over the 1995 to 1997 period.
- Ontario's unemployment rate is forecast to fall to 8.7 per cent by the end of 1997.
- Ontario's CPI inflation rate is expected to average 0.4 per cent in 1994, reflecting lower tobacco taxes and continuing slack in the economy. CPI inflation is forecast to rise to 1.3 per cent in 1995 and to average 1.5 per cent over the 1996 to 1997 period.

Ontario Economic Outlook at a Glance — **Table 1**
(Per cent)

	1993	1994	1995	1996-97 Average
Real Growth	2.4	3.3	3.8	4.4
Unemployment Rate	10.6	10.3	9.8	8.7*
CPI Inflation	1.7	0.4	1.3	1.5

* 1997 fourth-quarter unemployment rate

Ontario's Strengths

Strong Record of Economic Growth

- The province has a history of strong growth, with real GDP increasing by an average of 3.2 per cent per year over the last decade, stronger than any of the G-7 countries with the exception of Japan.

Ontario's Labour Costs are Competitive

- Ontario's manufacturing unit labour cost position has improved significantly relative to the U.S., Germany and Japan.
- After adding health care costs, Ontario's hourly labour costs in manufacturing range from $1.02 to $5.80 lower than those in competing jurisdictions in the United States.

Higher Education and Skill Levels will help Ontario Succeed in the New Economy

- Ontario is a leader in the share of its workforce with post-secondary education.

Ontario's Tax Structure for Manufacturing is Competitive with the United States

- Ontario's combined corporate income tax rate of 35.3 per cent is over four percentage points lower than the U.S. average of 40.0 per cent.

Well-Developed Infrastructure Improves Competitiveness

- According to the 1993 World Competitiveness Report, Canada ranks fifth among industrialized nations in terms of infrastructure.

Ontario's Quality of Life Enhances its Attractiveness as an Investment Location

- In 1993, Canada ranked second out of 160 nations in the UN Human Development Index, a measure of quality of life.

Close proximity to U.S. market

- Over one-third of the combined United States and Canadian consumer markets — worth $2.9 trillion — and two-fifths of the industrial market are within one day's drive of Southern Ontario.

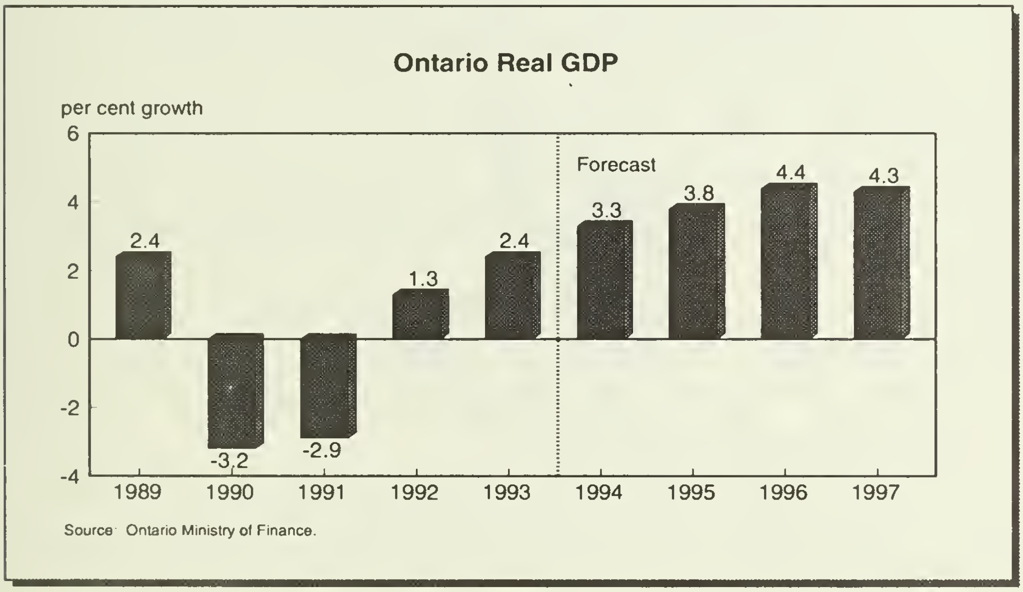
New Partnerships

- Business and workers in a wide range of industrial sectors are forging new partnerships to improve their competitiveness and create jobs.

Introduction

Ontario's economic recovery is gaining momentum. Real output expanded by 2.4 per cent in 1993, the strongest annual growth since 1989. Ontario's real Gross Domestic Product (GDP) is expected to surpass its pre-recession peak in 1994. Exports and business investment are propelling economic growth, supported by a dramatic improvement in Ontario's competitive position and solid U.S. demand.

Figure 1



Prospects for employment are strengthening. Employment rose by 79,000 jobs in 1993, the first annual job gain since 1989. Compared to previous recoveries, job creation has been modest. Firms have expanded production by increasing hours worked and raising productivity more than by hiring new workers. In the coming year, faster economic growth and a turnaround in the housing market will support stronger job gains.

Ontario's improving prospects for 1994 and beyond reflect the province's healthy competitive position, growing external demand — particularly from the United States — and Ontarians' increased willingness and ability to spend. Real GDP in Ontario is forecast to rise by 3.3 per cent in 1994, by 3.8 per cent in 1995, and by an average of 4.4 per cent annually over 1996 and 1997. Ontario's recovery is becoming more broadly based as consumption and housing pick up. Household spending will be fuelled by gains in employment and income and improving confidence.

Economic Recovery is Gaining Momentum

A wide range of indicators confirms that the Ontario economy is gaining strength.

- Ontario real GDP grew by 2.4 per cent in 1993, the strongest growth since 1989. The economy grew at an annual pace of 5.3 per cent in the fourth quarter of 1993.
- Ontario created 23,000 jobs in March, following a gain of 11,000 in February. Ontario's unemployment rate has not been lower since January 1992.
- New motor vehicle sales in Ontario were up 21.6 per cent in January and February from a year earlier.
- Housing resales in January and February were up 30 per cent compared to a year earlier.
- Ontario's international exports in January and February were up 9.7 per cent from a year ago.
- Ontario consumer confidence has risen for three consecutive quarters, returning to levels that last prevailed in 1989.
- Over the first two months of 1994, Ontario retail sales increased by 3.4 per cent from a year earlier.

The Economic Setting

Foundation for Durable Growth

Ontario has a modern and diversified economy. The economy is open, flexible and increasingly export-oriented. Manufacturing accounts for 25 per cent of provincial output. Ontario maintains a standard of living among the highest in the world, a position based on the province's core economic strengths.

Figure 2

Ontario workers are highly educated and productive; our infrastructure is well developed and meets the needs of an advanced industrial economy; and Ontario is favourably situated within the North American market. These are the strong underlying attributes of the economy that make Ontario an attractive location for investment.

Ontario also offers a cost-competitive business environment and has the capacity to grow strongly without creating inflationary pressures. Labour costs, after adding health care costs, are significantly below those in neighbouring U.S. states; prices for commercial and industrial space in the Greater Toronto Area are comparable with those in other North American industrial centres; corporate and payroll tax structures are competitive with those in the United States.

International cost comparisons obviously depend upon exchange rates. In the late 1980s, the Canadian dollar was severely overvalued in comparison to the U.S. dollar and the Ontario economy paid a high price. This obstacle was removed by the depreciation of the Canadian dollar and at the 75 to 76 cents U.S. exchange rate prevailing earlier in 1994, Ontario firms can compete successfully.

From 1991 to 1993, Ontario's manufacturing unit labour costs measured in U.S. dollars fell by approximately 14 per cent compared to a two per cent decline in U.S. costs, dramatically improving Ontario's competitive position. The depreciation of the Canadian dollar accounted for most of this improvement. Strong productivity growth over the 1994 to 1997 period will contribute to declining unit labour costs in Canadian dollar terms. This will be offset by the expected appreciation of the Canadian dollar.

Figure 3

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

Economic Restructuring

Pervasive and powerful structural forces will shape Ontario's economic performance over the remainder of the decade. Ontario's economy is shifting towards export-oriented, higher value-added industries. Rising capital intensity and higher skill levels are enabling these industries to succeed in an increasingly competitive environment. Ontario firms are globally competitive in industries such as telecommunications equipment, computer software and environmental protection.

Ontario's auto industry will remain a key sector of our economy, whether measured in terms of jobs or the value of output. The auto industry is closely linked to other important Ontario industries including steel, plastics and machine tools. Not only has the competitive position of North American auto producers been enhanced by exchange rate movements, but the industry is also gaining market share through increased productivity and improved vehicle quality. These improvements are also spurring vehicle exports from North America.

Structural change is also taking place in the services sector because of increased international competition, technological innovation, trade liberalization and capital investment. Strong machinery and equipment investment is contributing to higher productivity growth in the services sector, notably in financial services and communications.

The restructuring that is under way is making Ontario a more productive, competitive economy and providing a solid foundation for economic growth in the long term. Higher productivity leads to more jobs and higher real incomes, thereby helping to broaden and strengthen the base of the economic expansion.

The Public Sector and Economic Growth

The public sector will play a key role in the long-run economic performance of the Ontario economy. Public services — such as health, education and the provision of the capital infrastructure that supports transportation, communication and a healthy environment — are essential both to Ontarians' well-being and to economic growth. In order to prosper in the increasingly competitive international economy, Ontario will provide these services as efficiently as possible. Details on how the Government is working to reduce spending while preserving services are provided in Budget Paper C, the Fiscal Review and Outlook.

The recession and the uneven pace of the recovery weakened Ontario's revenues and added to spending pressures, particularly for social assistance. This contributed to higher deficits and increases in the cost of servicing the public debt. To ensure a strong economy in the long run, public debt cannot become an excessive burden on taxpayers.

The 1993 Budget contained difficult measures to cut spending and restore revenues. The 1994 Budget holds the line on spending while cutting taxes to create jobs.

While the Ontario government has a major influence on many important policy areas (see *Ontario's Economic Strategy* on the following page), the federal government controls a number of key policy levers that have a decisive impact on Ontario's economic outlook. In particular, monetary policy, which is a key determinant of interest rates and exchange rates, is critical to Ontario's economic health.

Ontario's Economic Strategy

Investing in people and infrastructure

Active labour market policies such as the Ontario Training and Adjustment Board and **jobsOntario***Training* build bridges between training and work experience — ensuring that our investments in people meet the real-world needs of workers and business.

Strategic infrastructure investments create jobs and raise private sector productivity. To lower costs and speed up completion timetables, the Government is building partnerships with the private sector to plan, construct and operate strategic projects.

Building capabilities in sectors, communities and strategic firms

The Government is working with sectors, communities and strategic firms to strengthen the economy's competitive fundamentals. The Sector Partnership Fund creates linkages within the private sector, **jobsOntario***CommunityAction* empowers communities to help determine their own economic directions and assistance to R&D performers spurs innovation. These efforts are part of an industrial policy that helps business take advantage of new technologies, emerging industries and international trade.

Creating a positive economic climate that fosters investment and job creation

Ontario's fiscal policy provides a stable environment for private investment. Provincial operating spending has declined for each of the past two years, and the deficit is on a downward track. By restructuring Ontario Hydro and the Workers' Compensation Board, Ontario is helping to control the costs of doing business.

These policies support investment and job creation, helping Ontario to grow faster than any G-7 economy over the next several years. The comprehensive strategy is set out in:

- *Ontario in the 1990s: Promoting Equitable Structural Change* (Budget paper, 1991)
- *Investing in Tomorrow's Jobs: Effective Investment and Economic Renewal* (Budget paper, 1992)
- *An Industrial Policy Framework for Ontario* (Ministry of Economic Development and Trade, 1992)
- *Public Investment for Economic Renewal* (Ministry of Finance, 1993)

Interest Rates and the Canadian Dollar

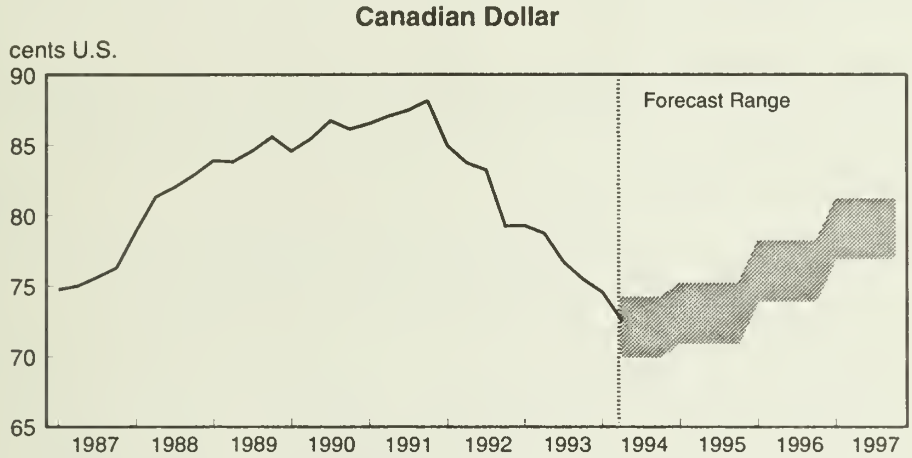
This forecast is based on the assumption that upward pressure on interest rates will continue through the summer. Subsequently, rates are assumed to decline gradually. Over the 1995 to 1997 period, the prime lending rate is expected to average close to 6 per cent.

If interest rates move significantly higher, the housing market and consumer spending would be weaker than forecast. If higher interest rates were accompanied by a lower exchange rate, the net impact on the economy would be largely offset by additional export growth.

- Domestic conditions do not justify the recent sharp rise in Canadian interest rates; inflation remains very low and the economy is running at a level far below its potential. The rise in interest rates that has occurred has already dampened the outlook for economic growth in 1994.
- The U.S. economy, in contrast, is operating close to potential and U.S. short-term rates are expected to rise further in response to inflationary pressures. Higher interest rates in the United States place upward pressure on Canadian interest rates. The absence of inflationary pressures in Canada, however, should lead to a narrowing of nominal interest rate spreads once the Canadian dollar stabilizes.

The dollar is assumed to trade in the 70 to 74 cents U.S. range in 1994. Over the medium term, continued low and stable wage and price inflation, combined with stronger economic growth and solid productivity gains, relative to the United States, are expected to provide support for a gradual appreciation of the Canadian dollar to the 77 to 81 cents U.S. range by 1997.

Figure 4



Sources: Bank of Canada and Ontario Ministry of Finance.

Improving Access to Capital For Growing Businesses

Long-term capital investment is the foundation of Ontario's competitiveness, jobs and economic growth. Efficient capital markets are needed to support economic growth and meet the changing capital needs of business, while strong financial institutions are needed to take advantage of emerging opportunities in financial markets.

Access to capital is a longstanding concern for several sectors. For example, small business often cannot finance growth through internal funds, and innovative growth firms and R&D performers can have difficulty in financing intellectual assets.

The Government is responding to business' concerns about access to capital. It is removing barriers that discourage loan and trust companies and labour-sponsored investment funds from providing capital to new businesses and modifying the Employee Ownership Program to allow more flexibility. It is also changing the rules for co-ops to improve their capacity to obtain capital from their members and non-members. (See Budget Paper A for details of initiatives for trusts and loans, for labour-sponsored investment funds and employee ownership, and for co-ops.) The Government has already introduced legislation that would remove barriers faced by credit unions and caisses populaires in lending to small business. The Government will also be seeking improved information about lending patterns from financial institutions.

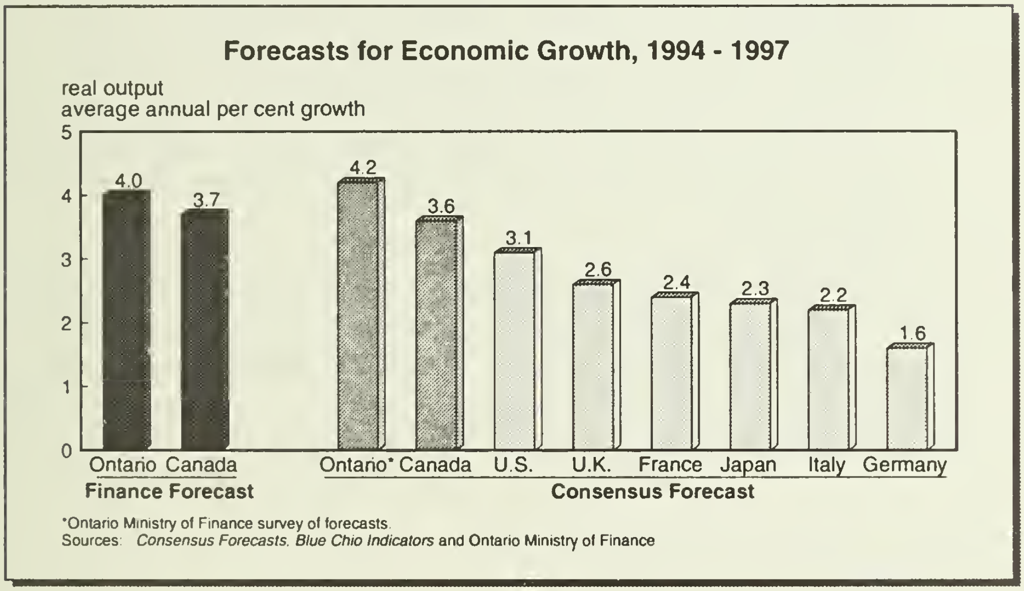
Credit unions, caisses populaires and trust and loan companies are important to small communities, either as the only source of loans, or often providing the only competition to banks. They have also been product- and service-innovators, and can be expected to gradually target a significant portion of their over $3 billion in available funds to small businesses.

Many of Ontario's new high-quality jobs will come from small and medium-sized companies that innovate and compete successfully in international markets. The Government, in cooperation with several major financial institutions, has created the Ontario Lead Investment Fund to strengthen Ontario's venture capital industry and address the expertise gap between investors and growing companies.

Canadian and International Outlook

The growth of Ontario's trade-oriented economy depends to a large extent on the economic health of our trading partners, particularly the United States and the other provinces of Canada.

Figure 5



Canada and the United States entered into recession earlier than other G-7 countries and the North American recoveries are gaining momentum. Germany and Japan are just beginning to emerge from recession and growth remains sluggish. Global economic growth is expected to improve in 1994 and strengthen over the medium term as growth among the G-7 countries becomes more balanced.

- Real GDP in Canada is forecast to grow by 3.1 per cent in 1994, by 3.7 per cent in 1995 and by an average of 4.0 per cent per year in 1996 and 1997. The Ontario economy will grow more rapidly than the rest of Canada because it is more trade-oriented and is benefiting from the dramatic improvements in the competitiveness of Ontario's manufacturing sector.

- According to private sector forecasters, U.S. real GDP is projected to grow by 3.7 per cent in 1994 and by 2.9 per cent in 1995. Over the 1996 to 1997 period, real GDP growth is forecast to average 2.9 per cent.
  - After peaking at 7.0 per cent annualized growth in the fourth quarter, U.S. growth is expected to moderate over the course of 1994. Although increased cost and price pressures are not evident, the U.S. economy is closer to full capacity than the Canadian economy. This has generated expectations of a modest rise in U.S. inflation. The consensus forecast expects U.S. CPI inflation to rise from 2.8 per cent in 1994, to 3.3 per cent in 1995 and to an average of 3.7 per cent over the 1996 to 1997 period.
- The consensus of private forecasters predicts that real output in the G-7 countries, excluding Canada and the U.S., will rise by 1.3 per cent in 1994 and by 2.2 per cent in 1995. Over the 1996 to 1997 period, real growth is expected to strengthen to an average annual pace of 2.7 per cent.

Ontario Economic Forecast

This section provides the details of the economic forecast for Ontario over the 1994 to 1997 period.

Employment is Growing

Total employment in Ontario increased by 1.7 per cent, or 79,000 jobs, in 1993 — the first annual increase since 1989. In 1993, major layoffs fell to 16,000, about half the level in 1992. Over 100,000 net new jobs are expected to be created over the next twelve months. Job creation is expected to accelerate, averaging 2.4 per cent or 117,000 per year, over the 1995 to 1997 period.

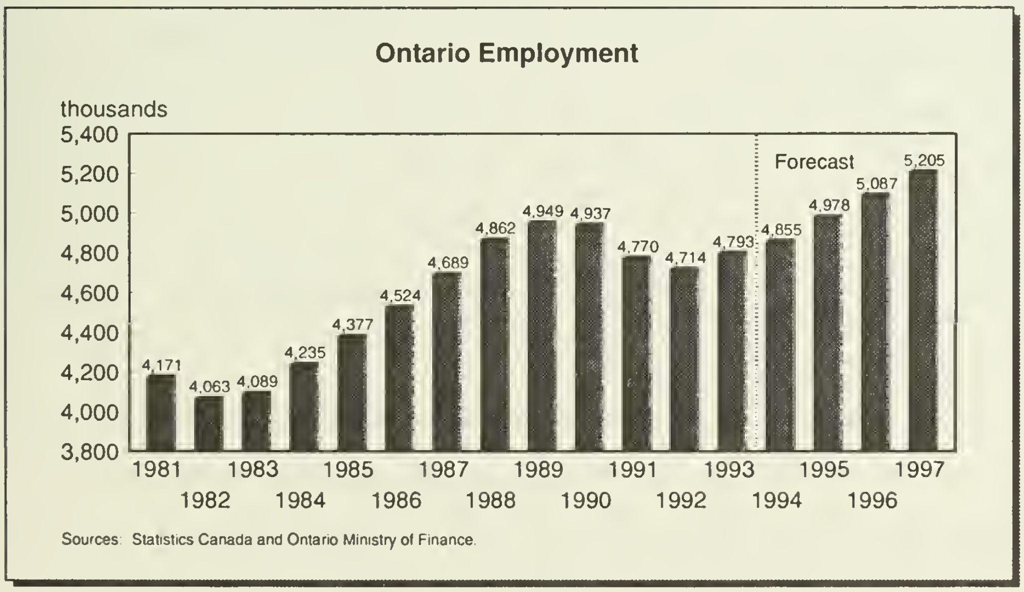
- The Budget provides significant additional support for job creation. Businesses that take on more staff will not pay the Employer Health Tax on those workers for their first year on the job.

The greatest job opportunities will occur in occupations offering good earnings potential and requiring higher levels of education and specific training. In particular, professional and managerial occupations are expected to account for nearly half of new jobs over the medium term.

- Following four years of decline, the goods-producing sector of the economy is expected to post moderate employment gains over the medium term. Expansion in export-producing sectors is leading to recovery in manufacturing, increasing jobs in machining, fabricating and assembly occupations. The rebound of the housing market will generate demand for skilled tradespeople in construction.

- The services sector will make the largest contribution to jobs over the next several years, in keeping with its dominant share of overall employment and recent job creation. Growth in managerial and professional occupations will remain strong, with the private sector accounting for the bulk of new jobs. Fiscal restraint will temper job growth in the public sector. However, there will be changes in the occupational mix in the public sector over the medium term. For example, growth is expected in some specialties of nursing reflecting the aging of the population.

Figure 6

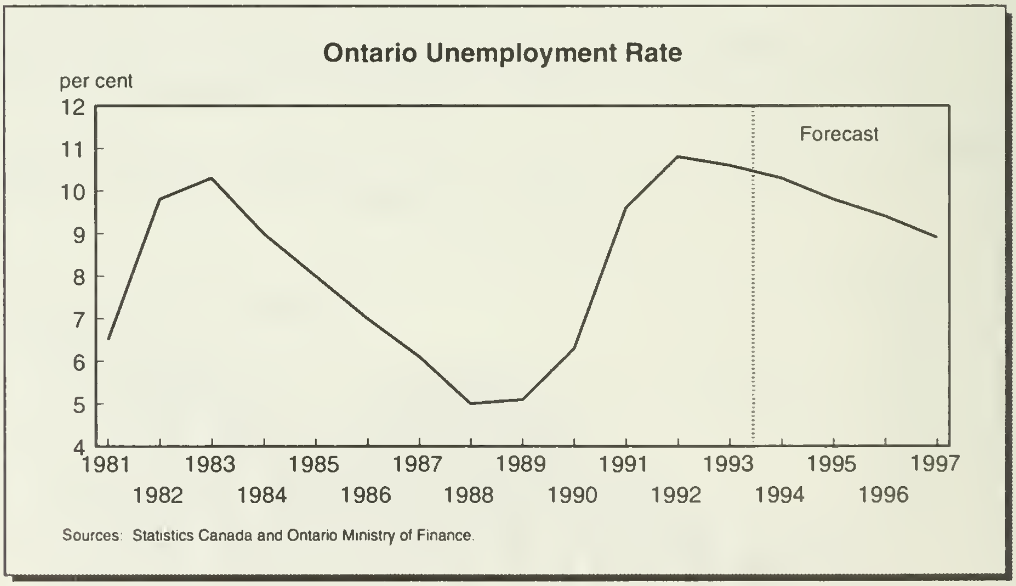


- Occupations in the services sector will be affected by new and emerging technologies, increased computer applications and changes in work organization.
- As the economy gains momentum and employment in the goods sector rebounds, job creation in full-time positions will strengthen.

Unemployment Will Continue to Decline

Ontario's unemployment rate declined to 10.6 per cent in 1993, down from the peak of 10.8 per cent in 1992. As employment prospects improve and job growth picks up, a number of people who had given up looking for work will return to the labour force. The re-entry of discouraged workers will limit the improvement in the unemployment rate brought about by strong job creation. The unemployment rate is expected to fall to 8.7 per cent by the end of 1997.

Figure 7



Low Inflation

In 1993, consumer prices in Ontario increased by 1.7 per cent, up from the 1.1 per cent rise in 1992. CPI inflation in Canada averaged 1.8 per cent last year, up from 1.5 per cent in 1992.

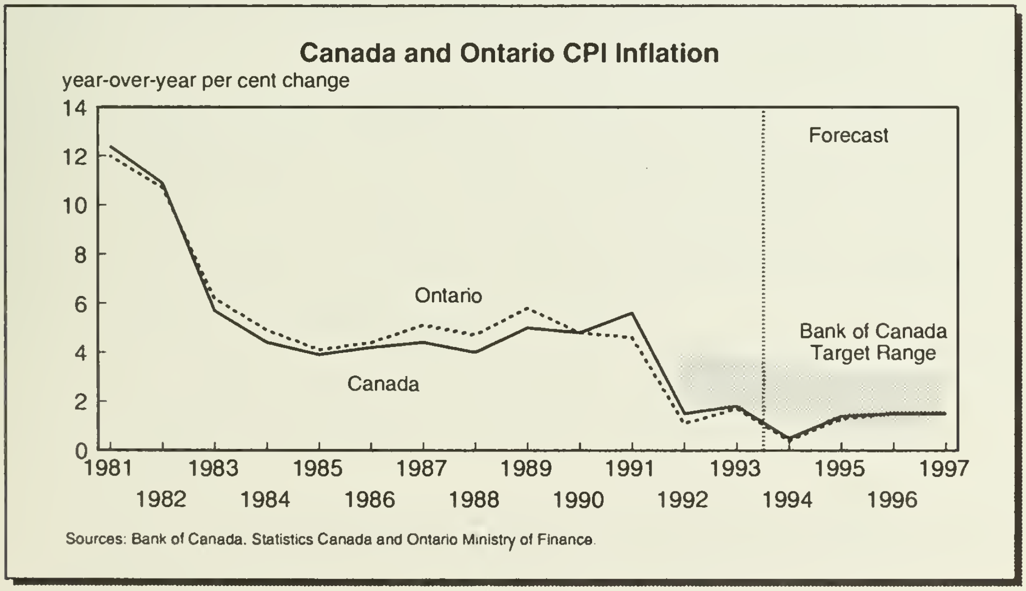
- Consumer price inflation in Ontario in 1993 was primarily the result of increased prices for imported goods, reflecting the decline in the Canadian dollar and higher regulated prices.

Consumer price inflation in Ontario is forecast to fall to 0.4 per cent in 1994, reflecting recent tobacco tax cuts and continuing slack in the economy.

In 1995, inflation is forecast to rise modestly to 1.3 per cent. During 1996 and 1997, inflation is expected to average 1.5 per cent annually, well within the one to three per cent target band established by the Bank of Canada and the federal government.

- The pace of economic growth predicted for Ontario and Canada over the next few years will not fully absorb the labour and capital resources available in the economy. As a result, inflationary pressures will not emerge.
- Price increases will also be limited by intense competitive pressures and continuing economic restructuring, reflecting trade liberalization, technological change and deregulation.

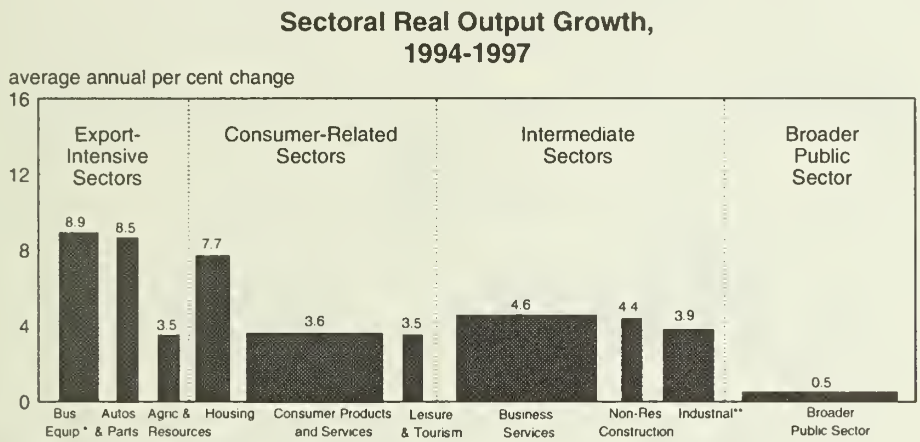
Figure 8



Sectoral Outlook

- The expansion from 1994 to 1997 will continue to be led by export-intensive industries.
  - Autos and parts are benefiting from a strong cyclical rebound in North American motor vehicle sales. Industry employment increased in 1993 and is rising in 1994, as Ontario's share of North American production continues to increase based on favourable product mix and competitive plants.
  - Business equipment and related services, such as industrial machinery and computer software, are showing strong growth, led by exports and investment in productivity-enhancing machinery and equipment.
  - Agriculture and resources-based industries will enjoy modest growth, reflecting a cyclical recovery in world commodity prices and industrial production.
- Growth in consumer-related industries will be led by a recovery in household spending.
  - The retail sector is improving cost-competitiveness, contributing to price stability and growing consumer demand.
  - A recovery in housing construction and renovation will support growth in many industries such as building products and furniture and appliances.
- Moderate growth is forecast for intermediate sectors.
  - Transportation and business services will benefit from growth in export-intensive industries.
  - A recovery in non-residential construction will be led by major public and private infrastructure projects.

Figure 9



* Includes industrial machinery, communications equipment, computers and software.
** Includes industrial materials, transportation and utilities.
Note: Width of bars is proportional to share of total output.
Source: Ontario Ministry of Finance

Trade Sector will Continue to Drive Growth

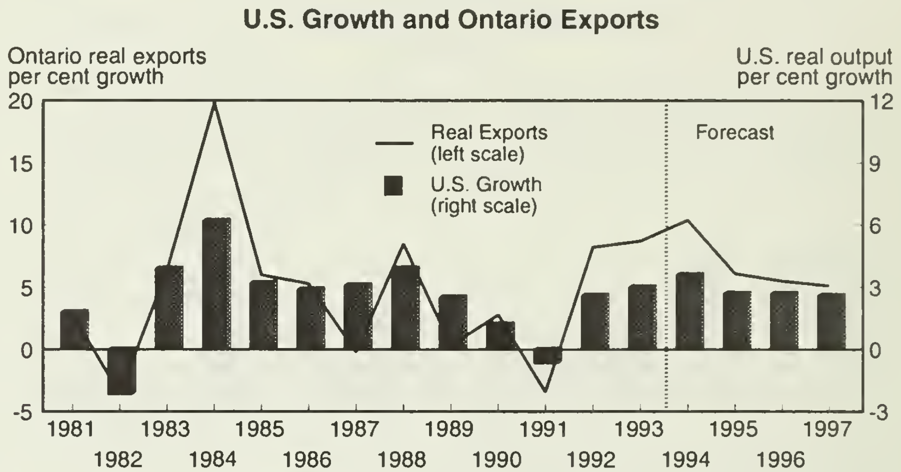
Ontario's trade balance improved by over $4 billion in 1993 as real export growth of 8.7 per cent outweighed the 5.5 per cent rise in real imports. Gains will continue throughout the medium term, with Ontario's real trade balance rising to $11.1 billion by 1997.

Ontario's economy is trade-oriented. Ontario's international and interprovincial exports amount to close to 60 per cent of GDP, with imports only slightly lower. Exports and imports will increase as a share of the economy over the forecast period. This reflects the trend towards greater globalization, falling trade barriers and the continued specialization of firms towards activities in which they have an international competitive advantage.

A strong U.S. economy, coupled with a lower Canadian dollar and lower Ontario manufacturing unit labour costs, will boost the province's exports.

- The United States is Ontario's largest trading partner, accounting for close to 90 per cent of international exports.

Figure 10



Sources: U.S. Department of Commerce, *Blue Chip Economic Indicators*, *Consensus Forecasts* and Ontario Ministry of Finance.

Real exports are expected to grow by 10.4 per cent in 1994 and 6.1 per cent in 1995. Over the 1996 and 1997 period, real exports will grow by 5.3 per cent per year.

- Auto exports account for close to half of Ontario's international exports. Real auto exports are forecast to grow by 10.5 per cent in 1994, 11.1 per cent in 1995 and an average of 7.1 per cent over 1996 and 1997. Ontario's market share of the auto industry is rising due to lower costs, higher quality and favourable product mix.
  - U.S. motor vehicle sales grew by 8.6 per cent in 1993, bolstered by robust light truck sales. Sales are expected to remain strong, rising by 5.1 per cent in 1994, 4.8 per cent in 1995 and 3.2 per cent per year over the 1996 to 1997 period. By 1997, U.S. vehicle sales are expected to achieve the pre-recession peak of 16.3 million units reached in 1986.
- Interprovincial exports will also be a source of growth reflecting rising incomes in the rest of Canada. Among the most important goods exported to other provinces are chemicals, motor vehicle products, food and electrical and communications products.

On the import side, real imports will grow by 9.7 per cent in 1994, by 5.6 per cent in 1995 and by an average of 4.5 per cent over the

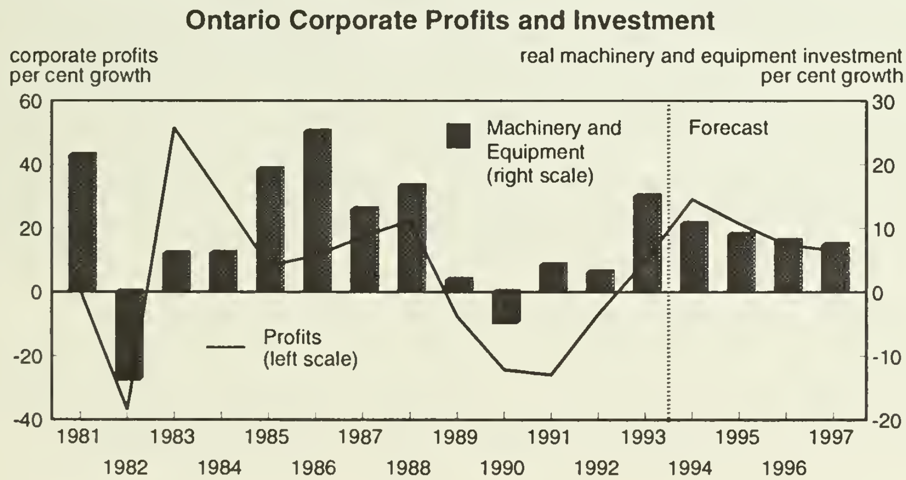
1996 to 1997 period. Import growth reflects rising consumer spending, strong machinery and equipment investment, and strong auto exports, which have a high import content.

- Motor vehicles and parts are Ontario's largest import, accounting for about one-quarter of all merchandise imports.
- Energy is Ontario's most important interprovincial import, accounting for about one-fifth of all merchandise imports. Other important merchandise imports from other provinces are chemicals and paper products.

Machinery and Equipment Investment Grows Rapidly

Ontario's firms are striving to remain successful in an increasingly competitive global economy. This drive to increase efficiency, combined with improvements in business cash flow, result in strong growth in productivity-enhancing processes and equipment investment. Real investment spending on machinery and equipment is expected to increase by 10.7 per cent this year, by 9.0 per cent in 1995 and by an average of 7.7 per cent over the 1996 to 1997 period.

Figure 11



Sources: Statistics Canada and Ontario Ministry of Finance.

- Improvements in profit margins and continuing low nominal interest rates have improved business cash flow. Interest expense as a share of gross cash flow fell to 26 per cent in 1993, similar to the share during the second half of the 1980s. As a result, businesses are in a better financial position to invest in machinery and equipment.
- The lower dollar, which is boosting the competitive position of Ontario's export and import-competing industries and raising corporate profits, will lead to higher investment. However, this positive stimulus is partially offset because the lower dollar also raises prices for imported machinery and equipment.
- The investment expansion in machinery and equipment will be sustained by strong demand for Canadian-produced goods and services. According to the latest public and private investment intentions survey by Statistics Canada, virtually all industries within Ontario's manufacturing sector plan to boost investment spending in 1994, with the transportation equipment industry accounting for the largest share of growth.

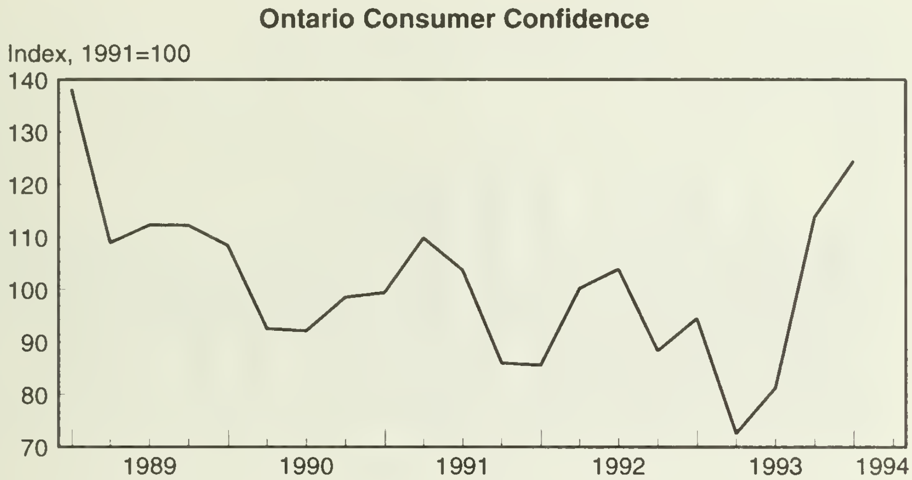
Household Spending Improving

Household spending is expected to strengthen over the medium term, supported by rising incomes and a declining savings rate. Strong productivity growth will lead to rising real disposable incomes. In addition, the household savings rate will decline, reflecting rising consumer confidence and sustained low inflation.

Real consumer spending is forecast to rise by 2.4 per cent in 1994, by 2.9 per cent in 1995, and to accelerate to an average rate of 3.3 per cent during the 1996 to 1997 period.

Growth in consumer spending will be fuelled by moderate employment and income gains, lower debt-carrying costs and the sharp drop in tobacco taxes. Consumer confidence is recovering as consumers become more optimistic about future job prospects.

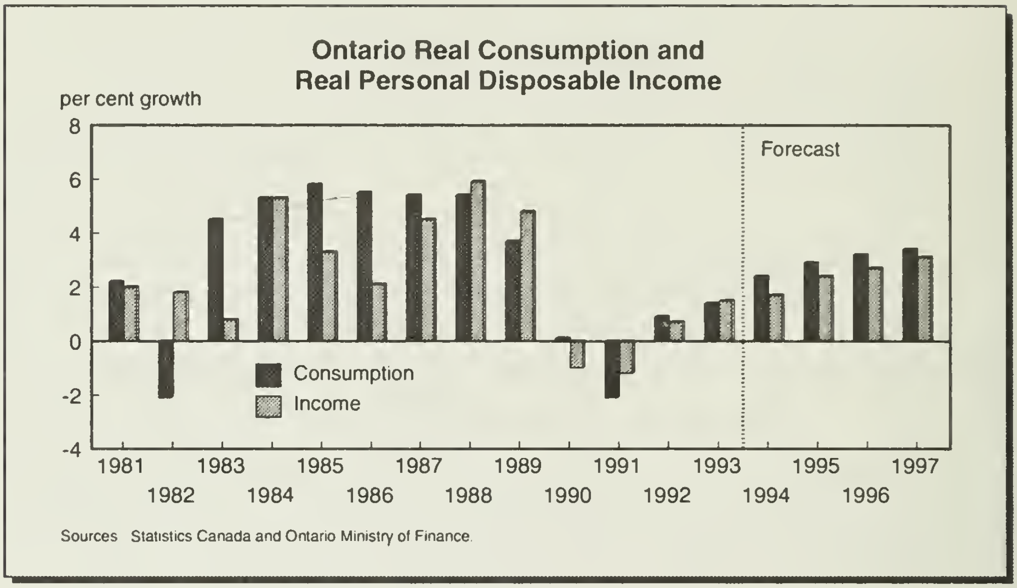
Figure 12



Source: Conference Board of Canada.

- Lower debt-carrying costs will help improve household cash flow as consumers renew mortgages and consumer loans at lower interest rates. Despite the recent spike, interest rates remain significantly below the levels that prevailed in recent years. Canadian household debt-servicing costs, as a share of after-tax income, have fallen from 10.2 per cent in early 1991 to 8.1 per cent in late 1993. The rebound in consumer confidence and improvement in household cash flow are enhancing households' ability and willingness to increase discretionary spending.
- Over 1996 and 1997, real consumer spending is forecast to rise at an average rate of 3.3 per cent per year, supported by pent-up demand, faster growth in employment and income, rising housing activity and continuing high levels of immigration.

Figure 13

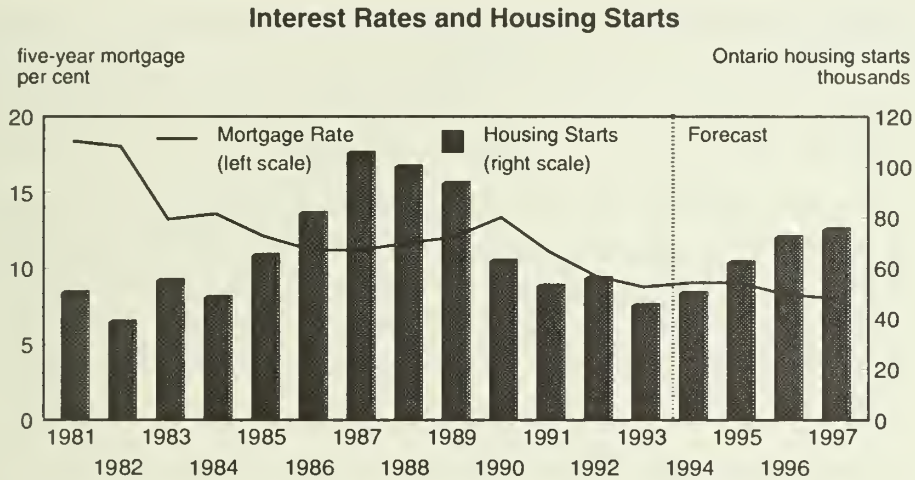


Housing Market Reviving

Real spending on housing is forecast to rise by 8.2 per cent in 1994, and by 10.2 per cent in 1995. Housing starts are expected to rise from 45,140 in 1993 to 50,000 in 1994 and to 62,000 in 1995.

- Housing has become more affordable. Even with the recent increase in mortgage rates, monthly carrying costs are about $1,150 for an average home in Ontario, down by over $500 from the peak in April 1990.
- The recent upturn in mortgage rates may encourage many households to buy now rather than later. Housing resales are up strongly and the ratio of sales-to-listings has risen, reflecting a more balanced housing market. If the rise in mortgage rates continues, however, the housing market could suffer a renewed setback.

Figure 14



Sources: Bank of Canada, CMHC and Ontario Ministry of Finance.

Housing starts are forecast to rise to 72,000 in 1996 and 75,000 in 1997. Real residential construction is expected to rise at an average annual rate of 6.2 per cent per year over the 1996 to 1997 period. A number of factors are supporting a stronger housing market over the medium term.

- The second and larger phase of the baby boom generation (i.e., 28 to 37 years of age) is now in the prime first-time home buyer age group.
- Households who "doubled-up" on accommodation due to high unemployment and high immigration are expected to enter the housing market.

Non-residential Construction Turning Around

Real non-residential construction investment is expected to increase by 2.2 per cent this year, the first annual increase since 1989, and by 4.8 per cent in 1995. Growth is anticipated to continue at a modest pace during the 1996 to 1997 period, averaging 4.9 per cent per year.

- Currently, commercial space far exceeds demand in the Greater Toronto Area. Modest employment growth, smaller and more compact office machines, and flexible working environments are restraining demand for commercial space. Vacancy rates are expected to decline slowly as new demand absorbs some of the excess capacity.
- Lower capital spending by Ontario Hydro will also restrain non-residential construction.
- Industrial construction is beginning to show signs of recovery. This reflects increased demand for specialized industrial plants, in particular in the automotive and chemical industries, to accommodate new technologies, systems and processes.

Selected Major Near-Term Investment Projects in Ontario

Project	Location	Investment ($ millions)
New Highways:		
Highway 407	Greater Toronto Area	1,000
Highway 416	Ottawa	280
Major Highway Upgrades:		
Highway 69	Waubaushene/Sudbury	447
Highway 17	Thunder Bay/Nipigon	367
QEW	Hamilton/St. Catharines	343
Highway 401	Southern Ontario	205
Highway 17	Ottawa/Arnprior	142
Highway 403	Ancaster/Brantford	50
Transit Systems:		
Rapid Transit Expansion Program	Greater Toronto Area	2,500
GO Transit	Greater Toronto Area	380
Industrial Plants and Upgrades:		
Ford: Engine Plant	Windsor	1,000
Chrysler: NS Minivan Plant	Windsor	600
GM: Transmission Plant	Windsor	500
Ford: Paint Plant	Oakville	400
TransCanada PipeLines: Power Plants	North Bay/Kapuskasing	160
Ford: Aluminum Casting Plant	Windsor	100
Domtar: Paper Recycling Plant	Cornwall	76
St. Joseph's Printing: Plant Expansion	Concord	40
Bombardier: Subway Car Plant	Thunder Bay	41
Dimona Aircraft: Plant	London	30
Commercial Buildings:		
Windsor Casino	Windsor	375
Metro Convention Centre	Toronto	185
Hospitals:		
Princess Margaret Hospital	Toronto	218
Whitby Psychiatric Hospital	Whitby	134
Royal Victoria Hospital	Barrie	98

Sources: Informetrica Canadian Capital Projects, Canadata, Ontario Ministry of Finance and Ontario Ministry of Health

Conclusion

Ontario is expected to grow faster than any of the G-7 countries over the 1994 to 1997 period. Our economy is undergoing an intense period of structural change. Knowledge-intensive industries, such as computers, software and environmental technologies, are among the fastest growing sectors in the economy, playing a key role in restructuring toward higher productivity throughout the economy. The significant improvement that has been achieved in Ontario's competitive position, combined with Ontario's underlying strengths, will lead to a stronger, more sustainable, economic expansion.

The Ontario Economy, 1992-1997 **Table 2**
(Per cent change)

	1992	1993	1994	1995	1996	1997
Real Gross Domestic Product						
($1986)	**1.3**	**2.4**	**3.3**	**3.8**	**4.4**	**4.3**
Consumption	0.9	1.4	2.4	2.9	3.2	3.4
Government	0.1	-1.3	-1.4	-0.8	-0.6	-0.3
Residential Construction	0.0	-12.8	8.2	10.2	8.0	4.5
Non-residential Construction	-21.2	-33.6	2.2	4.8	4.8	5.0
Machinery and Equipment	3.1	15.0	10.7	9.0	8.0	7.4
Exports	8.2	8.7	10.4	6.1	5.5	5.1
Imports	5.2	5.5	9.7	5.6	5.1	4.0
Nominal Gross Domestic Product	**1.9**	**2.7**	**4.1**	**5.4**	**6.1**	**6.1**
Other Economic Indicators						
Retail Sales	2.3	3.8	4.0	4.4	4.8	4.9
Housing Starts - Units (000s)	55.8	45.1	50.0	62.0	72.0	75.0
Personal Income	1.8	2.2	2.6	3.8	4.5	4.8
Pre-tax Corporate Profits	-6.9	9.8	29.1	21.6	15.0	13.0
Consumer Price Index						
Canada	1.5	1.8	0.5	1.4	1.5	1.5
Ontario	1.1	1.7	0.4	1.3	1.5	1.5
Labour Market						
Labour Force	0.2	1.4	0.9	2.0	1.7	1.9
Employment	-1.2	1.7	1.3	2.5	2.2	2.3
Unemployment Rate (%)	10.8	10.6	10.3	9.8	9.4	8.9

Sources: Statistics Canada and Ontario Ministry of Finance.

BUDGET PAPER C
FISCAL REVIEW AND OUTLOOK

Introduction

The Government came to office at a time of great economic and fiscal challenges. To meet those challenges, the Government adopted a three-part plan: to invest in jobs, preserve vital services and lower the deficit. Today, the plan is demonstrating concrete results: jobs are being created, services are being maintained, and the deficit is on a steady downward track.

This paper describes how the Government is implementing its plan, with a focus on fiscal management.

It shows how the public sector is getting rid of waste and inefficiency, eliminating duplication of services, and controlling costs. It gives examples of how services are being maintained at an affordable cost. It describes how the Government is creating and supporting jobs through innovative partnerships with the private sector.

This paper sets out the fiscal picture for 1994-95 and the medium term, and reports on expenditure management and revenues in the past year. The fiscal outlook is improving as the economy gains momentum and as more Ontarians go back to work. The Government's medium-term plan will continue to reduce the deficit as the economy strengthens.

Part I: Delivering on the Government's Plan

Facing the Fiscal Challenges

The Government has faced extraordinary challenges over the last three years:

- The 1990-92 recession had a severe effect on employment. Ontario accounted for nearly 70 per cent of all job losses in Canada.
- Government revenues were severely affected by the recession, declining by over $2 billion in 1991-92. Tax revenues are not expected to exceed their 1990-91 level until 1995-96.
- Weakness in the economy put additional demands on Ontario's safety net programs.

At the same time as Ontario was going through its worst recession since the 1930s, the federal government dramatically cut its share of support for health care, post-secondary education, social assistance, and other critical programs and services in Ontario. The current federal government is continuing this policy.

Federal limits on Canada Assistance Plan (CAP) transfers alone cost Ontario almost $5 billion over the period 1990-91 to 1993-94. Continuing restrictions on the growth of Established Programs Financing (EPF) transfers, unfair treatment in federal spending on training and immigration, and other federal actions also added to Ontario's financial burden.

To meet these challenges, the Government adopted a plan to:

- maintain affordable services;
- invest in jobs; and
- put the deficit on a downward track.

The three elements of the plan are connected. Investing in jobs is crucial to support economic growth. A growing economy will generate the revenues the Government needs to provide the services Ontarians value. But the growing debt means that interest costs are eating into the money available for jobs and services. So the deficit must be reduced in a way that does not slow the recovery.

To find the money to invest in jobs and to maintain essential services, the Government has reduced its spending on other services — by eliminating waste and inefficiencies, by refocusing services and by restructuring programs so that services can be provided at less cost.

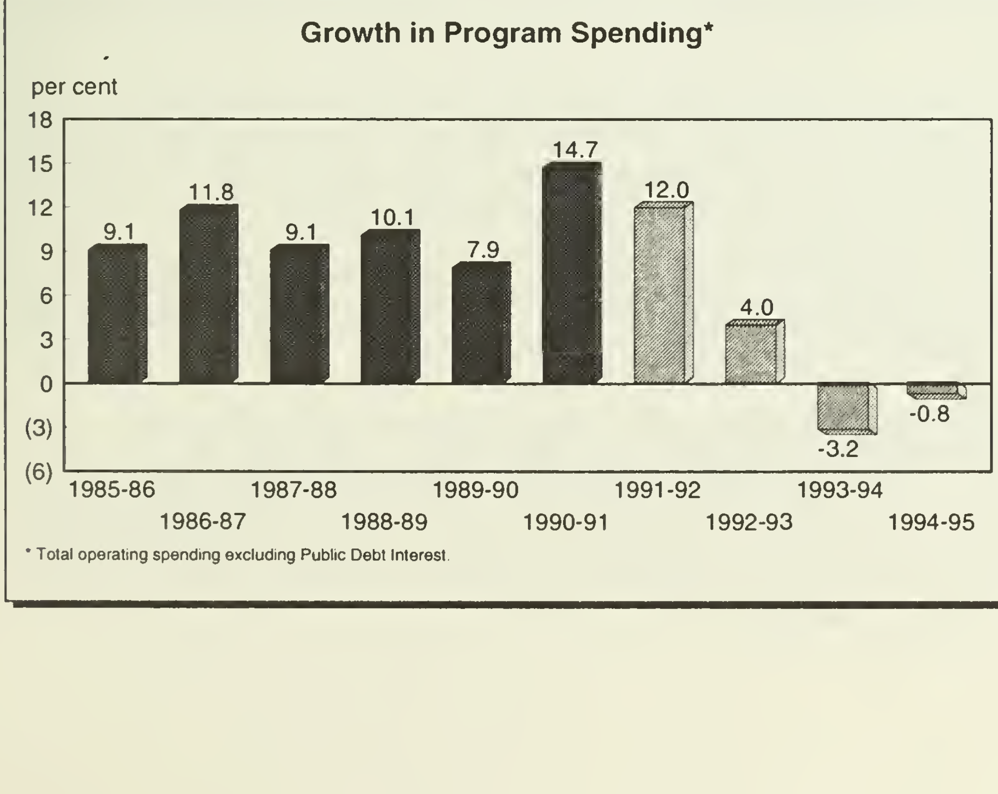
Getting Spending Under Control

Bringing spending into line is an essential part of the Government's plan. In 1993-94, program spending fell for the first time since 1942, by 3.2 per cent. Through two key initiatives — the Expenditure Control Plan and the Social Contract — the Government has met the goals of supporting jobs and services while controlling costs and reducing the deficit.

Making Permanent Changes

Building on measures it took last year to reduce spending, the Government will achieve a second straight year of lower program spending in 1994-95. Program spending this year will fall by 0.8 per cent. Over the medium term, it is planned to grow at less than the rate of inflation.

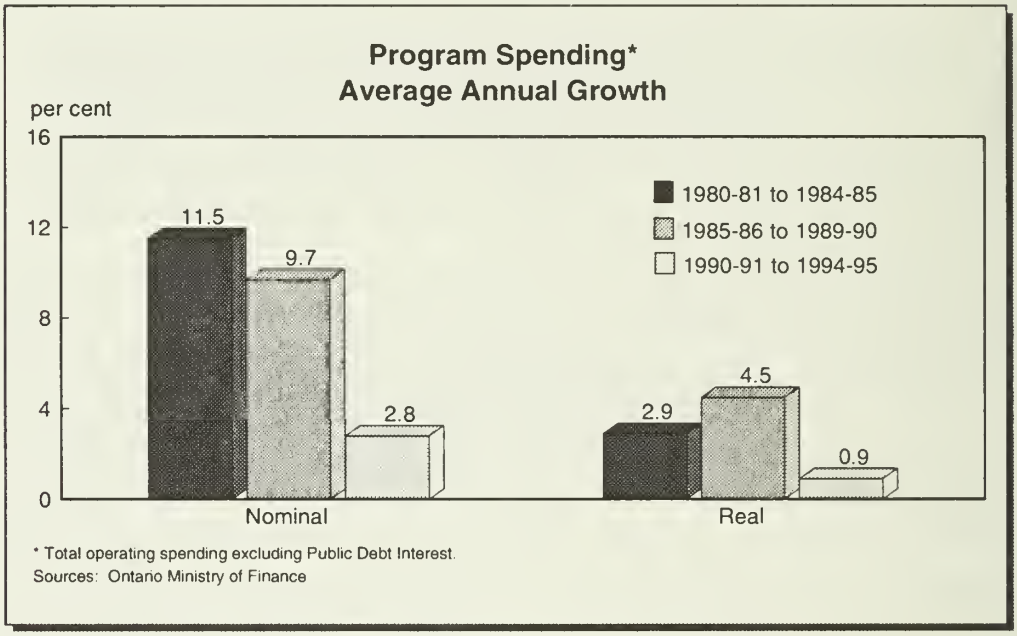
Figure 1



* Total operating spending excluding Public Debt Interest.

The Government's approach to cost control is clearly working. It has met the goal of lowering program spending for the second straight year. Fourteen out of 20 ministries will have lower budgets this year than last. Figure 2 shows how spending increases have been brought under control since the substantial growth of the 1980s.

Figure 2



Savings have been achieved by cutting the Government's overhead costs, containing the growth of program costs, and managing programs more efficiently, as well as by delaying the introduction of new programs and improvements to existing ones.

The Government has succeeded in making changes to the public sector that will reduce spending permanently while allowing for the continued delivery of high-quality services.

Through its Expenditure Control Plan, the Government has intensively scrutinized its spending to improve program effectiveness, eliminate duplication, and make services affordable over the long run. This plan is working. When fully implemented in 1995-96, the Expenditure Control Plan will save Ontario taxpayers $6 billion annually.

The Social Contract will directly reduce Ontario's public-sector compensation bill by $2 billion this year and next. It has also set the stage for the public sector to restructure and make these savings permanent once the Social Contract has expired. That is already happening. Permanent savings have been found in all Social Contract sectors.

The goal of the Social Contract is to achieve savings while minimizing job losses, and that has been achieved in almost every instance. The Job Security Fund, set up to train and redeploy workers who lost jobs as a result of the Social Contract, has had 101 applications out of a work force of more than 900,000. Most of these 101 workers are now in approved training programs.

The Social Contract is doing what the Government intended: it is protecting as many as 40,000 jobs, reducing compensation costs by $2 billion a year, preserving services and promoting restructuring throughout the public sector in Ontario.

Making Every Dollar Count

The Government recognized that reshaping public services in Ontario had to start with putting its own house in order. Its response matches what taxpayers say are their main concerns: better service, less red tape and lowering the cost of government.

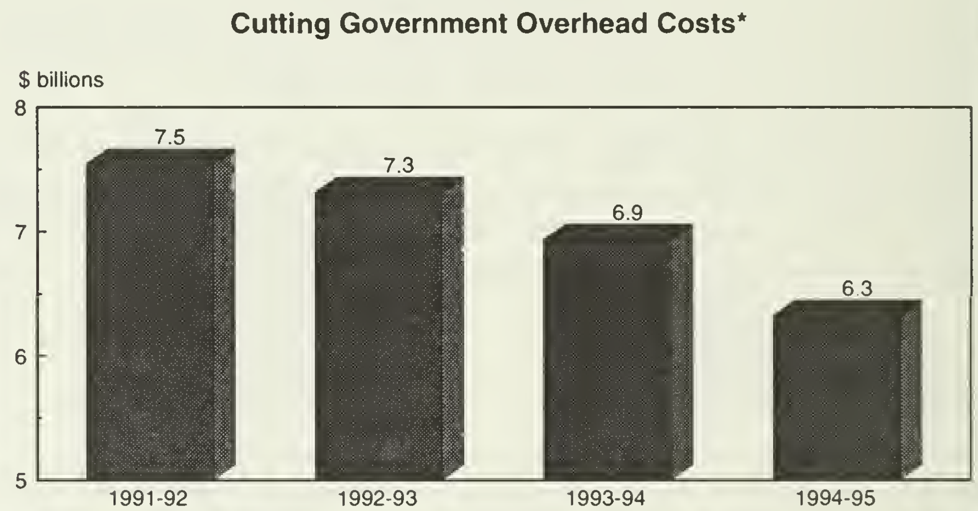
Going further, the Government is taking a lead role in getting the message to Ontario's broader public sector, and is creating a real dialogue with the people who deliver public services to Ontarians. It is working with hospitals, schools, post-secondary institutions, municipalities, social service and other agencies to find better ways of providing quality affordable services. The result is a permanent change for the better in the way that government provides services in Ontario.

Achieving these goals is not a short-term project, nor one that will be dropped now that the economy is showing an upturn. It's an ongoing challenge.

Getting Its Own House in Order

The Government is meeting these goals in its own operations. Since 1991-92, the cost of operating government has been reduced by $1.2 billion, or 16 per cent. And this includes even more extensive cuts in what the Government spends on transportation, communication, services, supplies and equipment — 25 per cent over the same three-year period.

Figure 3



* Includes salary and wages, employee benefits, transportation, communications, services, supplies and equipment.

Last year the number of ministries was reduced from 28 to 20. This streamlining created the opportunity to share common administrative services like finance, human resources and other support services and resulted in permanent annual savings of $42 million. Ministries will continue to explore opportunities for new ways of delivering or consolidating support services beginning with internal audit and legal. Ministry regional offices are also working to reduce overhead by streamlining business functions, including consolidating purchasing and coordinating vehicle use.

The Government has also reduced the size of the Ontario Public Service by more than 4,500 positions with almost no layoffs, and expects to achieve its target of 5,000 this year.

At the same time, the Government is rethinking the way it provides public services. By organizing itself more effectively, by improving productivity and taking a hard look at its priorities, the Government is providing high-quality services while controlling and reducing costs.

Better and Faster Service

By adopting new technologies and rethinking programs, Ontario's public service is better serving the people and businesses who use its programs. Some of these changes have made it easier to access services, while others have dramatically cut the time involved — saving money for both government and the public:

- The Ministry of Transportation has set up kiosks, similar to automatic banking machines, where people can renew their vehicle licence stickers and will be able to access other services 24 hours a day. Since this pilot project was launched last year, the machines have processed more than 70,000 transactions — half of them outside normal business hours.

- Business expansions and plant operations that meet environmental standards will be certified by the Ministry of Environment and Energy in a more streamlined way. The time it takes to get a Certificate of Approval has been cut from an average of six months to 30 days. The ministry has also wiped out a huge backlog of applications.

- The Government is streamlining the registration processes for new businesses. By September 1, the Government will introduce one-stop registration for new businesses at locations across Ontario. Beginning in 1995, the Government will make it possible for businesses to use a single form to remit Retail Sales Tax and Employer Health Tax.

- An amended *Unclaimed Intangible Property Act* will be introduced that safeguards the rights of owners by providing a recovery and distribution method for unclaimed property. The amendments will streamline the legislation to address business concerns.

- The Government is taking action to make government work better. It will be introducing a bill that will cut red tape, reduce costs to taxpayers and improve services to the public. Annual reviews will be carried out in an effort to keep legislation in step with the times.

- To provide a more streamlined approach to service delivery, regulatory and adjudicative agency procedures will also be streamlined under the proposed bill. In addition, where possible, regulatory and adjudicative agencies are being administratively consolidated, beginning with the Boards of Inquiry under the Human Rights Code, the Pay Equity Hearings Tribunal and the Employment Equity Tribunal. As well, in the advisory agency sector, 11 agencies have been eliminated.
- The Personal Property Security Registration Branch in the Ministry of Consumer and Commercial Relations is improving customer services through better use of computer technology. This branch registers close to 1.7 million documents and responds to more than 850,000 enquiries annually. The public now has access to faster, more convenient service. Today over 50 per cent of registrations and enquiries are transacted electronically during more convenient service hours.

Solid Savings

The Government has encouraged all its ministries and agencies to find less costly ways of doing business. Often, these are in areas that the public doesn't see. But the savings are real:

- Expanding its electronic mail and fax networks has cut Government's use of couriers. Using new technology to pre-sort mail by postal code has cut postal costs. These two measures will save more than $2.2 million in 1994-95. Greater use of teleconferencing will save $500,000 in travel costs. These savings have been achieved by working jointly with employees and their representatives.
- Adopting a new approach to contracting for the Government's own office construction projects, combined with a review of project scale, resulted in cost savings of $40 million.
- The Government is bringing together government purchasing of goods and services. It is estimated that the Government can save up to $25 million over the next three years through consolidated

purchasing agreements. The first of these agreements, dealing with the purchase of photocopiers, is already in place.

- Improving methods of responding to forest fires, including use of computer technology to predict the outbreak of fires, and more efficient planning and deployment of fire crews and equipment, will save approximately $1.6 million annually.

Listening, Learning and Leading

One of the most important aspects of the Government's strategy to rethink its operations has been listening to its own workers, leading by example, and learning from others' experience. This has led to greater cooperation within the public sector and better use of public resources:

- Aircraft used by the Government for forest fire, and fish and wildlife duties now also serve as air ambulances in northern Ontario communities.
- The Ministry of Housing has restructured its financial services branch, removing layers of management and giving workers more responsibility. The branch has lowered its operating costs by 30 per cent, increased productivity and cut turn-around time.
- By improving business processes, Management Board Secretariat, the Government's administrative arm, has dramatically cut the time it takes to process supplier invoices and at the same time has improved accuracy. It has also eliminated one million pieces of paper a year.

These are only a few examples of how the Government is getting its own house in order. And the process is ongoing. Spending is being constantly reviewed and program delivery rethought so that Ontarians will continue to receive quality affordable services.

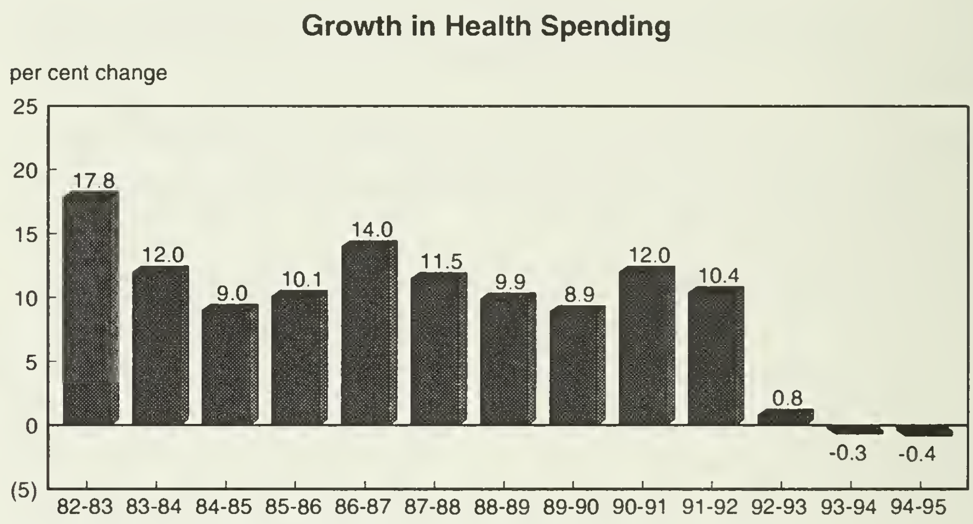
Quality Affordable Services

The Government recognizes that controlling overall program spending depends, above all, on curbing the growth of its three largest program areas — health, social assistance and education — and maintaining its funding for social services at current levels. By taking a balanced approach to change, the Government is achieving that aim while preserving and improving the services on which people in Ontario most depend.

Health Care

After a decade of spending growth that averaged 11 per cent a year, spending by the Ministry of Health – which accounts for 40 per cent of all program spending – has been virtually flat-lined over the last three years.

Figure 4



* Includes transfer of long-term care from Ministry of Community and Social Services. Excludes capital.

Better management of the health care system has allowed the Government to direct more dollars to priority areas, such as cancer treatment and long-term care, while ensuring the total health care budget remains within the limits of affordability.

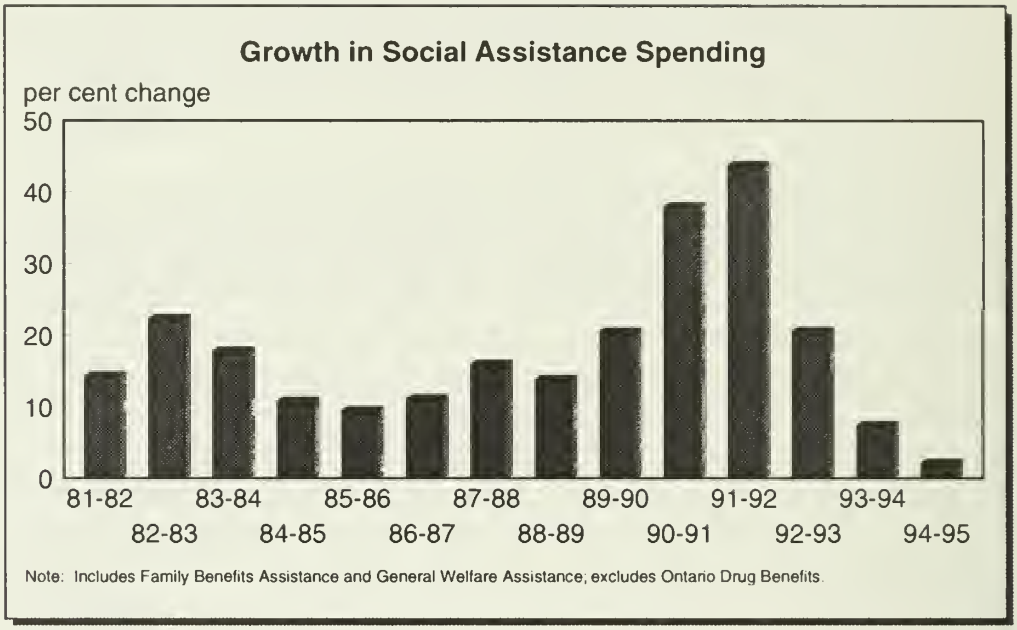
- Hospitals are now handling 9 per cent more cases with 20 per cent fewer beds because stays in hospitals are shorter and more people are being treated in day surgeries. This has allowed resources to be shifted to where the need is greater, including cardiac care, dialysis and trauma.

- By sharing administrative services, hospitals in some areas are saving money and redirecting it into community-based care. This is already being done in Windsor Essex, Dufferin County and Brockville, and planning studies are under way in a further 30 communities.
- Since 1990-91, the annual budget for community-based long-term care services has grown by more than 50 per cent. Services in communities are being expanded so that the elderly and persons with disabilities are able to continue to live in their own homes for as long as possible. For example, increasing support to the Home Care Assistance Program has allowed an additional 200,000 people to be able to continue living independently. Also, the Integrated Homemaker Program now covers the entire province, expanding from 20 to 38 areas and serving over 25,000 individuals.
- An additional $15 million will support more bone marrow transplants, increase breast cancer screening and expand treatment at the regional cancer centres in Toronto, Kingston and Ottawa.
- The Ministry and hospitals have developed a network that matches people who need cardiac care with the beds and services available, cutting the waiting time by two-thirds since 1989.

Social Assistance

As a result of the recession, the social assistance caseload increased, and costs rose by 40 per cent annually in the two years ending in 1991-92. Through a variety of measures, the Government has since brought growth rates down significantly. This has been achieved despite continued high unemployment rates, and the additional costs downloaded on the Province by the federal government through changes to the Unemployment Insurance program.

Figure 5



The Government's actions have focused on controlling costs and getting people back into the labour force and off social assistance through programs like **jobsOntario***Training*. In the future, the Government will continue to strengthen the labour market attachment of social assistance recipients.

Costs are being controlled through:

- recovery of overpayments and fraud detection;
- enhanced verification of eligibility;
- benefit and entitlement changes; and
- better business practices.

Staff have been dedicated to reducing fraudulent claims, recovering overpayments, helping clients find alternate sources of income and encouraging job training. All 13 Ministry of Community and Social Services area offices now have units dedicated to recovering funds to which clients were not entitled.

Rules for the review of case files have been strengthened to ensure that recipients are eligible to receive benefits and that they are receiving the appropriate level of assistance. This involves recipients providing greater detail in documenting such areas as assets, income and medical disability.

Benefit and entitlement changes include stricter criteria on what is considered income for assessing benefits. For example,

- interest or dividend income is now part of a client's income; and
- minimum monthly deduction from any boarder income has been increased from $40 to $60.

In addition, clients are now required to report any changes in their personal or financial status each month rather than every three or six months.

Further eligibility changes to Family Benefits include the following: unemployable 16- and 17-year-olds living at home are now ineligible for benefits; and benefits have been reduced for single parents under 18 living at home when their parents are not on social assistance.

New and better management practices continue to be introduced. For example, 60 per cent of Family Benefit payments are now made by direct deposit, eliminating the cost of replacing lost and stolen cheques.

Through **jobsOntario***Training*, the Government has created 46,000 job opportunities in private companies. Nearly half of the participants formerly relied on social assistance. They are now receiving a steady paycheque averaging $21,000 a year. That means that they can provide for themselves and for their families, and the cost to taxpayers is much less than welfare. The total cost of each job placement is about $10,000 – lower than an average family's social assistance benefits for a year. **jobsOntario***Training* will save taxpayers at least $190 million in social assistance costs.

jobLink, an innovative program that builds on the success of **jobsOntario***Training*, will increase the number of job placements and training opportunities available to social assistance recipients. It will provide job-search skills that help people find work. These active labour market programs will help end dependency on the social assistance system.

The total impact of all the initiatives taken over the last three years will mean that in 1994-95, social assistance costs will be in the order of $350 million lower than they would otherwise have been.

Education

Throughout the educational sector, institutions at all levels are restructuring and finding ways to manage within their budgets while continuing to deliver high-quality education.

As well, the Government last year combined three ministries — Education, Colleges and Universities, and Skills Development — into the single Ministry of Education and Training. That has not only saved $11 million in direct operating costs but it has also contributed to greater cooperation among educational institutions, leading to new efficiencies.

- Specially designated capital funds have been used to foster multi-use school facilities. In these joint-purpose, community-based school buildings, a number of providers are sharing space, personnel and maintenance costs. This allows cost-efficient provision to the local community of an enhanced array of services such as meeting rooms, childcare facilities, library and resource centres, recreation facilities, career counselling and lifelong learning opportunities. Multi-use school facilities provide better integration of services to the community and the convenience of a single location.
- A major high school renovation by the Fort Frances school board will incorporate a new satellite campus of Confederation College to serve the Fort Frances/Rainy River community. The campus facilities will be shared by secondary and post-secondary students, and will include a Continuous Learning Centre and First Nations' Cultural Centre. Other projects such as the recently announced York University/Seneca College Campus capital construction project will offer opportunities for innovative and cost-effective delivery of programs.
- Groups such as the Task Force on Advanced Training, College Standards and Accreditation Council, the Schools-College Linkages Project and the Prior Learning Assessment Project are

assisting in making the transition between levels of education or between institutions easier for students.

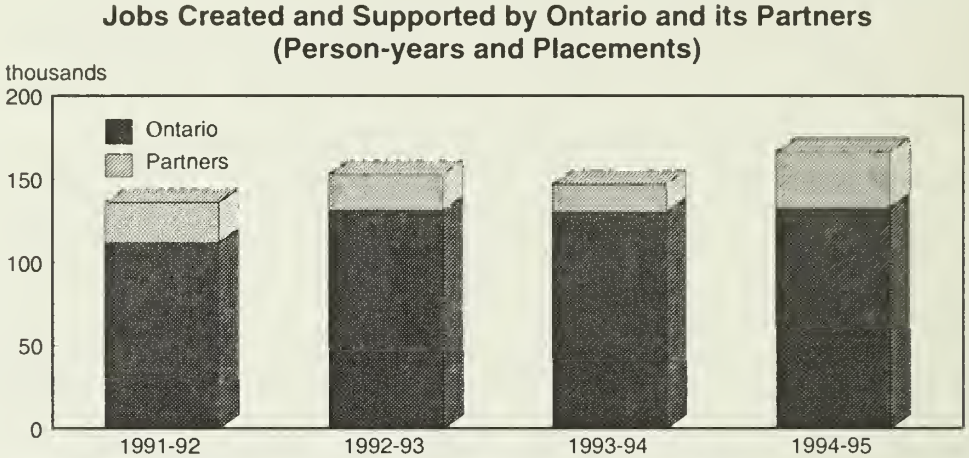
- Institutions at all levels have been restructuring. Many school boards have used provincial transition assistance funds as they work together to achieve cost efficiencies in such areas as purchasing and distribution of supplies, busing, libraries and computer networks. Colleges and universities are working toward greater sharing of academic and administrative resources and developing alternative methods of teaching.
- Access to student support through the Ontario Student Assistance Program has increased. In the 1993-94 program year, more than 180,000 students will receive assistance compared to 160,000 in the 1992-93 program year — an increase of 12 per cent.

Investing in Jobs

By implementing its expenditure control strategy, the Government has been able to direct more resources to job creation.

Over the last three years, more than 370,000 jobs have been supported through Ontario Government action. Figure 6 shows this record in the solid portion of the chart. Job creation is further enhanced through partnerships, with more than 435,000 jobs created when funding from municipal, federal and private sector partners is added to the total. It is projected that the Government's jobs initiatives will help to create and support over 166,000 jobs in 1994-95.

Figure 6



Note: Job creation through partner contribution is based on actual **jobsOntario***Capital* experience; Canada/Ontario Infrastructure Works program, and experience with non-profit housing programs
Placements include 12-month contracts under **jobsOntario***Training* and average 8- to 12-week placements under **jobsOntario***Summer Employment*.

JobsOntario

In 1992, the Government launched the **jobsOntario** program that provides training and employment opportunities to the long-term unemployed and youth, provides additional child care spaces and invests in capital projects and non-profit housing. In the 1993 Budget, **jobsOntario***Community Action* was announced, a program that supports community economic development.

jobsOntario*Training*, which assists the long-term unemployed and social assistance recipients to re-enter the job market, will provide 24,000 placements in 1994-95 in partnership with business, labour and communities. Chrysler, Lear Seating, Navistar, Apotex, GM Diesel and Dominion Casting are among the 27,000 firms already participating in the program.

jobsOntario*Summer Employment* and **jobsOntario***Youth* have provided more than 53,000 summer positions for students and employment-disadvantaged youths in the last three years. The Government expects that more than 23,000 positions for youth will be created this summer. In addition to the Government's direct support for youth programs, **jobsOntario***Training* has targeted close to 20 per cent of its positions to youth experiencing long-term unemployment.

jobsOntario*Homes* is a four-year program to support the construction of 20,000 new, non-profit housing units. It is projected to create almost 28,000 construction jobs over the life of the program.

jobsOntario*Community Action* supports local economic development by assisting communities to identify priorities, encourage local financing of small businesses, and support local capital projects. For 1994-95, **jobsOntario***Community Action* will create and support more than 3,000 jobs across the province.

jobsOntario*Capital Fund*, established in 1992, supports strategic infrastructure investments that help bring about economic recovery and job creation. Since 1991-92, the capital investments of the Government and its partners have created about 243,000 one-year jobs. In 1994-95, 93,000 more jobs will be created.

The 1994-95 capital plan maintains the focus on strategic capital investments that promote economic renewal and job creation. Larger projects started last year have multi-year timeframes for completion and many new commitments this year will create activity in 1995-96 and beyond.

Major capital expenditure activities in the coming year include the following:

- A commitment of $350 million for water and sewer projects over the next two years has been made under the Municipal Assistance Program administered by the Ontario Clean Water Agency (OCWA). 193 projects throughout Ontario are planned to start in 1994-95 and 1995-96. There will be a further investment of $405 million by our municipal partners, resulting in a total investment of $755 million and the creation of more than 13,000 jobs.
- Highway 407 will be built in partnership with a private sector consortium. Highway 407 will be the largest single highway contract in Ontario — at some $1 billion. The highway will be completed by 1999, 16 years ahead of schedule. It extends from Highway 403 easterly to Highway 48. More than 20,000 jobs will be created over five years.

- There is new funding for strategic university and college projects. Seneca College-York University Joint Campus will integrate post-secondary institutions for closer cooperation. The Niagara College - St. Catharines-Welland Campus will support regional economic development, and the Guelph Food Technologies Centre will promote technological innovation.
- The $185-million expansion of the Metro Toronto Convention Centre will create needed construction jobs and ensure that Metropolitan Toronto remains internationally competitive as a major convention destination.
- The Government has reaffirmed its commitment to the building of four new subway lines and the Mississauga Transitway. The Province will contribute $1.5 billion of the total estimated cost of $2.5 billion. The Government is continuing to consult with municipalities and key stakeholders on these lines. About 50,000 jobs will be created during the construction of these projects.
- Municipal roads will continue to be funded in 1994-95 at $704 million to maintain the ongoing rehabilitation of this essential infrastructure.
- The Canada-Ontario Infrastructure Works agreement established new partnerships between the Province and municipalities, school boards, colleges, universities and the federal government. The total funding of $2.1 billion obtained through these partnerships will create up to 37,000 jobs in Ontario over the next two years. Already, more than 600 projects have been submitted to the Province by 215 local partners.

Details of jobs created and supported by the Ontario Government are found in Table C8.

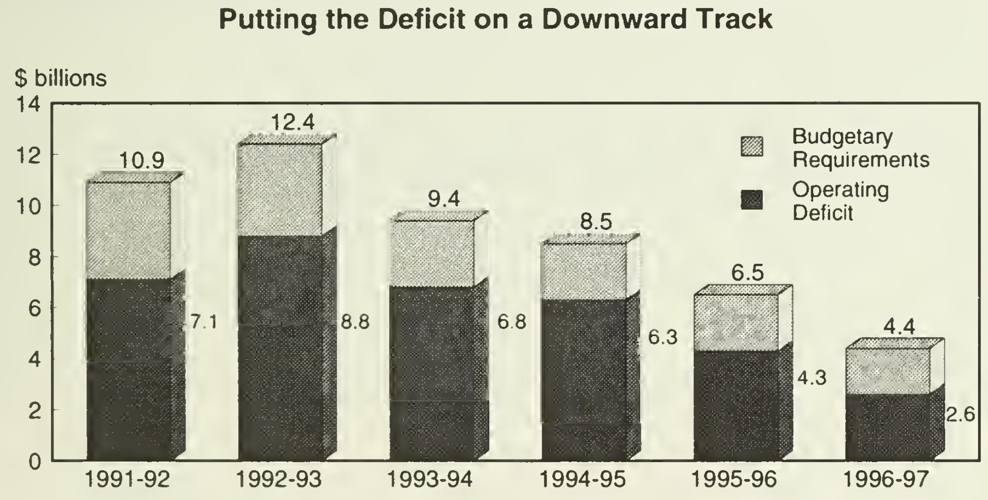
Putting the Deficit on a Downward Track

The Government, along with its partners, has put significant effort into expenditure control and these efforts are showing results. The Government has been able to invest in priority areas and in job creation, while at the same time substantially reducing expenditure growth and contributing to deficit reduction.

Provincial revenues over the past few years have been seriously affected by the impact of the recession and by federal government reductions to its share of the cost of social assistance and other critical programs in Ontario.

Despite the revenue weakness, the Government has succeeded in bringing the budgetary requirement down from $12.4 billion in 1992-93 to $8.5 billion in 1994-95. Over the medium term, the Government is committed to steadily reducing the deficit as the economy improves and achieving a balanced operating budget by 1998.

Figure 7



Note: In response to concerns raised by the Provincial Auditor regarding rescheduling of matching contributions in the Teachers' and Public Service Pension Funds, 1992-93 spending has been restated by a net increase of $528 million.

Part II: Fiscal Review and Outlook

Fiscal Overview

Ontario's fiscal position continues to show steady improvement. The fiscal plan for 1994-95 projects a budgetary requirement of $8.5 billion. This is down from a budgetary requirement of $9.4 billion in 1993-94 and a decrease of more than 30 per cent over the past two years. Ontario's planned operating deficit of $6.3 billion for 1994-95 is a reduction from the operating deficit of $6.8 billion in 1993-94 and the $8.8 billion recorded in 1992-93.

Revenue growth has been modest in the last several years, in line with the moderate pace of economic recovery. Total revenue growth in 1994-95 is expected to be below the rate of nominal GDP growth, largely as a result of the impact of the Tobacco Tax cut, lower asset sales and continuing limits on federal transfer payments to Ontario.

As a result of the Government's commitment to expenditure control, program spending is expected to decline by 0.8 per cent in 1994-95. Program spending has had year-over-year declines in each of the past two years, and remains below the program spending level of 1992-93. Total operating spending including Public Debt Interest is expected to increase by 1.2 per cent this year.

In 1994-95, the total capital plan is $3.8 billion, an increase of 10 per cent from the $3.5 billion of expenditures in 1993-94.

Fiscal Plan Overview ($ Millions)			**Table 1**
	Actual 1992-93	**Interim 1993-94**	**Budget Plan 1994-95**
Revenue	41,807	44,050	45,140
Operating Expenditure:			
Programs	45,350	43,890	43,543
Public Debt Interest	5,293	6,990	7,945
Total	50,643	50,880	51,488
Operating Deficit	**8,836**	**6,830**	**6,348**
Capital Expenditure*	3,592	2,600	2,200
Budgetary Requirements	**12,428**	**9,430**	**8,548**

* Excludes $854 million in alternative capital financing in 1993-94 and $1.6 billion in 1994-95.

Note: In response to concerns raised by the Provincial Auditor regarding rescheduling of matching contributions in the Teachers' and Public Service Pension Funds, the Government has restated 1992-93 spending by a net increase of $528 million.

1993-94 Fiscal Plan Update

A year ago the Government was facing the prospect that the 1993-94 deficit could rise to $16.7 billion, if measures were not taken to control spending, generate revenues and bring the deficit under control. The Government undertook an ambitious plan in the 1993-94 Budget with its goal to reduce the budgetary requirements to below $10 billion through:

- $4 billion in savings from the Expenditure Control Plan;
- $2 billion to be achieved from the Social Contract; and
- $2.8 billion from tax increases, asset sales and non-tax revenue measures.

Despite increases in operating spending in-year, budgetary requirements will be $9.4 billion in 1993-94.

1993-94 Fiscal Plan Update ($ Millions)			Table 2
	1993-94		
	Budget Plan	Interim	In-Year Change
Revenue	43,985	44,050	65
Operating Expenditure:			
Programs	42,898	43,890	992
Public Debt Interest	7,150	6,990	(160)
Total Operating Expenditure	50,048	50,880	832
Operating Deficit	**6,063**	**6,830**	**767**
Capital Expenditure	3,096	2,600	(496)
Budgetary Requirements	**9,159**	**9,430**	**271**

1993-94 Revenue Performance

As projected in the 1993 Ontario Budget, revenue growth was modest in 1993-94 and consistent with the moderate pace of economic recovery and the revenue-raising measures introduced in the 1993 Budget. Interim revenues for 1993-94 are estimated at $44,050 million, $65 million above the 1993 Budget Plan and 5.4 per cent above the 1992-93 level.

While several of the Province's major tax revenues, including Personal Income Tax, Retail Sales Tax and Corporations Tax performed much as expected, several other taxation and non-taxation revenues were weaker than anticipated. These shortfalls were due to the slower-than-anticipated economic recovery, the tobacco-smuggling problem and delays in the implementation of some non-tax revenue initiatives. However, these shortfalls were fully offset by higher asset sales, Social Contract recoveries and a fiscal stabilization payment from the federal government. This was the final payment on Ontario's 1990-91 stabilization claim and was not included in the 1993 Budget plan. Mid-year forecasts indicated that a revenue shortfall from last year's Budget projection might occur, but as the pace of economic growth gained momentum, the revenue outlook improved significantly.

In-Year Revenue Performance, 1993-94 ($millions)				**Table 3**
			In-Year Change	
	Budget Plan	**Interim**		**(per cent)**
Taxation Revenue	32,095	31,807	(288)	(0.9)
Other Revenue	5,045	5,118	73	1.4
Federal Government Payments*	6,845	7,125	280	4.1
Total	**43,985**	**44,050**	**65**	**0.1**

* Interim includes one-time fiscal stabilization payment of $227 million.

Taxation revenue was $288 million, or 0.9 per cent, below the Budget forecast. The slower-than-expected economic recovery and the persistent tobacco-smuggling problem were the main contributors to the tax revenue shortfall.

Revenue from Ontario's three largest taxes: Personal Income Tax, Retail Sales Tax and Corporations Tax performed close to expectation in 1993-94. The combined shortfall from these taxes was $42 million, or 0.2 per cent.

Tobacco tax revenue was $135 million lower than the Budget forecast mainly due to the worsening smuggling problem.

As a result of the sluggish housing market, Land Transfer Tax revenue fell $90 million below Budget plan.

Employer Health Tax was $55 million below the Budget forecast because of the slower-than-anticipated employment growth.

Summary of In-Year Changes to Revenue in 1993-94 ($ Millions)		Table 4
Taxation Revenue		(288)
Tobacco Tax	(135)	
Land Transfer Tax	(90)	
Employer Health Tax	(55)	
Corporations Tax	(20)	
Retail Sales Tax	(20)	
Personal Income Tax	(2)	
All Other (net)	34	
Other Revenue		73
Social Contract Recoveries	163	
Sales and Rentals	138	
Utility Service Charges	(75)	
Fines and Penalties	(60)	
Royalties	(48)	
Vehicle/Driver Registration Fees	(40)	
All Other (net)	(5)	
Federal Payments		280
Fiscal Stabilization	227	
Canada Assistance Plan	50	
Indian Welfare Services	25	
Established Programs Financing	(38)	
All Other (net)	16	
Total In-Year Changes		**65**

Non-taxation revenues were $73 million, or 1.4 per cent, higher than the Budget plan. Revenues from Sales and Rentals were $138 million above the Budget Plan largely due to the sale of more Government properties, including the GO Transit Refinancing project ($425 million). Included in this total is revenue from the sale of SkyDome ($135 million), Suncor ($189 million), and land and property sold to the Ontario Realty Corporation ($252 million). A total of $163 million was realized from recoveries under the Social Contract, of which $150 million was from the Teachers' Pension Plan. This revenue is part of the Government's overall $2-billion Social Contract savings. Revenue from Utility Service Charges was $75 million below Budget plan, reflecting the transfer of revenue-generating water and sewage assets to the Ontario Clean Water Agency that was established on November 15, 1993. Delays in the implementation of several new Non-tax Revenue Initiatives caused most of the shortfalls in Fines and Penalties, Vehicle/Driver Registration Fees and Royalties.

While total federal government payments were $280 million higher than the original forecast, much of this was due to one-time payments and adjustments. The federal government made a final payment of $227 million on Ontario's 1990-91 stabilization claim, which was not included in the 1993 Budget plan. Canada Assistance Plan (CAP) payments increased by $50 million, reflecting reimbursements for claims in respect of prior years. Transfers under the Indian Welfare Services program were up by $25 million due to improved cashflow arrangements with the federal government. Established Programs Financing (EPF) cash payments declined by $38 million due to revised federal estimates of population as well as changes in the value of EPF tax transfers.

1993-94 Operating Expenditures

In 1993-94 program spending declined for the first time since 1942; down 3.2 per cent from 1992-93. These results were achieved mainly through the implementation of the $4-billion Expenditure Control Plan and $2-billion Social Contract.

In-Year Operating Expenditure Performance, 1993-94 ($millions) **Table 5**

	Budget Plan	Interim	In-Year Change	In-Year Change (per cent)
Operating Expenditure:				
Program Spending	42,898	43,890	992	2.3
Public Debt Interest	7,150	6,990	(160)	(2.2)
Total	**50,048**	**50,880**	**832**	**1.7**

In-Year Savings

Restrictions and controls on spending were key to achieving results in 1993-94. In addition to the Expenditure Control Plan and Social Contract savings, the 1993-94 Budget Plan included a further $400 million in savings to be achieved in-year. And, in response to mid-year forecasts that indicated pressure on the deficit to increase, the Government identified a further $200 million in savings to be secured from a freeze on uncommitted spending. Both of these savings targets have been realized.

Savings were achieved primarily from lower-than-expected costs of carrying out government programs.

- While more than 25,000 positions were filled through the **jobsOntario***Training* program, slower uptake at the beginning of the year contributed to total savings of $118 million in **jobsOntario***Training* and the associated child care spaces.
- Projected pay equity expenditures were about $100 million lower than anticipated due to delays in the implementation of pay equity plans.
- Public Debt Interest costs were also $160 million less than in the Budget Plan due mainly to lower interest rates than forecast, and other factors such as timing of debt issues and higher investment income.
- The freeze on uncommitted expenditures implemented by ministries more than achieved the savings target of $200 million.
- In addition there were savings from delays in implementing various programs and non-tax revenue initiatives, and lower forest fire-fighting costs.

In-Year Increases

In-year, operating expenditures increased $832 million above the Budget plan. There were three main reasons for the increase:

- adjustments to the $2-billion Social Contract savings;
- caseload growth in social assistance; and

- increases in health costs related to the Ontario Drug Benefit and Ontario Health Insurance Plans.

Sector Savings Under Social Contract **Table 6**
($ Millions)

Sector	1993-94	1994-95	1995-96
Ontario Public Service	210	210	210
ABCs[1]	135	135	135
Municipalities	220	220	220
Health	378	434	434
Community Services	11	9	10
Schools	425	425	425
Colleges	40	40	40
Universities	90	90	90
Teachers' Pension Savings	442	376	404
TOTAL	**1,951**	**1,939**	**1,968**

1. Agencies, Boards and Commissions

In the 1993 Budget plan, Social Contract savings were reflected as savings from operating expenditures. Although $1,951 million in savings was achieved by sectors in 1993-94, accounting for these savings has resulted in further adjustments of $386 million due to two factors. First, $163 million were realized as revenue, and $7 million as capital, rather than operating savings. Second, agencies in some sectors were allowed to retain or defer payments of their Social Contract savings:

- $100 million retained by Ontario Hydro to help stabilize consumer rates and undertake joint energy projects with the Province;
- $10 million retained by the Workers' Compensation Board and its related agencies to lower the unfunded liability;
- $55 million of the 1993-94 municipal sector target deferred to 1996-97 to reflect different fiscal years;
- $46 million of the schools' 1993-94 sector target deferred due to delays in negotiating agreements with certain boards regarding

their Social Contract obligations. However, these savings will be achieved over the term of the Social Contract; and

- The impact of these retained savings was partially offset by the OPS sector that realized additional savings primarily as a result of Ontario Public Service Employees Union members having taken more unpaid days off than required in 1993-94. A corresponding adjustment, reducing the number of days required in 1994-95, has been made.

Net Social Contract Savings **Table 7**
($ million)

	1993-94	1994-95	1995-96
Sector Savings Under Social Contract	**1,951**	**1,939**	**1,968**
Adjustments			
Ontario Hydro	(100)	(100)	(100)
Workers' Compensation Board	(10)	(10)	(10)
Municipal Deferral	(55)	(5)	(5)
Municipal Utilities	(14)	(14)	(14)
Schools	(46)	37	8
Ontario Public Service	14	(14)	-
Other	(5)	(5)	(6)
Savings to the Consolidated Revenue Fund	**1,735**	**1,828**	**1,841**
Savings Received as Revenues	163	40	43
Operating Expenditure Savings	1,565	1,783	1,793
Capital Expenditure Savings	7	5	5

Note: Numbers may not add due to rounding.

Social assistance spending increases of more than $280 million are largely the result of caseload growth, including that resulting from the slower-than-expected uptake of the **jobsOntario***Training* program and the 1993 changes made to the federal UI program. As well, several savings initiatives are being implemented later than expected.

The overexpenditure in OHIP was due to the time necessary to implement the complex initiatives arising from the 1993 Interim Agreement between the Ontario Medical Association and the

Government, including delayed recoveries of payments to physicians. The decision not to pursue cost-sharing in the Ontario Drug Benefit Program resulted in an additional requirement of $50 million this year. The Special Drug Program, which provides specific high-cost drugs through hospital outpatient programs, was $15 million higher.

In 1993-94 the number of OSAP recipients exceeded original estimates, requiring an in-year increase of $24 million.

Additional funding of $14.3 million was provided for legal aid certificates due to lower-than-forecast revenues to the Legal Aid Plan from the collection of clients' liens and a decline in interest revenue from the Law Foundation.

The 1993-94 Budget Plan also reflected the continuation of the previous year's decision to reschedule matching contributions to the Teachers' and Public Service Pension Funds. In response to concerns raised by the Provincial Auditor, the Government decided to end the rescheduling in 1993-94. The Government has restated 1992-93 spending by a net increase of $528 million.

Despite the increases in operating expenditures that occurred, expenditure control measures allowed the deficit to remain well below $10 billion.

Reducing the Size of the Ontario Public Service

In the 1993 Budget, the Government stated its objective to reduce the size of the Ontario Public Service (OPS) by 5,000 by the end of 1993-94.

At the end of 1993-94, the size of the OPS had been reduced by over 4,500 positions. The Government remains committed to meeting the full target of 5,000 in 1994-95.

Despite this reduction, the Government has been able to realize its commitment to maximize redeployment and to minimize staff layoffs.

Normal attrition and voluntary retirements, enhanced by an early retirement program, provided a significant number of opportunities to redeploy people whose positions were declared surplus. In total, over 1,900 staff were redeployed to alternative positions during the year.

In the 1993 Budget, the Government also reiterated its commitment to delayering the bureaucracy as part of the program to reduce the size of the OPS. Over the past year, senior management positions have been reduced by 10 per cent and other management-related positions have declined by 7 per cent.

1993-94 Capital Strategy

In 1993-94, the Government committed to a capital strategy based on multi-year capital planning, better in-year management, the initiation of loans-based financing and the creation of four new Crown corporations.

In-Year Capital Performance 1993-94 — **Table 8**

($millions)

	Budget Plan	Interim	In-Year Change	In-Year Change (per cent)
Budgetary	3,096	2,600	(496)	(16.0)
Non-Budgetary	804	854	50	6.2
Total	**3,900**	**3,454**	**(446)**	**(11.4)**

Savings of more than $400 million were achieved in 1993-94. Better monitoring, cash control and project management systems enabled savings to be identified and retrieved in the course of the year. The Government took advantage of factors such as project delays and continuing lower construction costs to reallocate funds in-year towards deficit reduction, while still delivering on its capital commitments.

The Government also delivered on its promise to adopt more innovative approaches to capital investment and financing by establishing the Ontario Transportation Capital Corporation, Ontario Clean Water Agency, Ontario Realty Corporation and Ontario Financing Authority. These special-purpose corporations provide new approaches to planning, financing and delivering investments in highway, transit, water and sewer, and provincial facilities. Initiating the corporations earlier than originally scheduled resulted in a minor increase in their funding during 1993-94.

1994-95 Fiscal Plan

The fiscal plan for 1994-95 projects budgetary requirements of $8,548 million, down $882 million from 1993-94. Revenue will increase by 2.5 per cent to $45,140 million. Program operating spending will decrease by 0.8 per cent to $43,543 million. The total capital plan, including the alternative financing package, will amount to $3,800 million.

1994-95 Fiscal Plan **Table 9**
($ Millions)

	Interim 1993-94	Budget Plan 1994-95	Per Cent Change from 1993-94
Revenue	44,050	45,140	2.5
Operating Expenditure:			
Programs	43,890	43,543	(0.8)
Public Debt Interest	6,990	7,945	13.7
Total	50,880	51,488	
Operating Deficit	**6,830**	**6,348**	
Capital Expenditure*	2,600	2,200	
Budgetary Requirements	**9,430**	**8,548**	

* Excludes $854 million in alternative capital financing in 1993-94 and $1.6 billion in 1994-95.

1994-95 Revenue Outlook

The 1994-95 revenue outlook is based on continued economic recovery and on cautious assumptions concerning the relationship between economic and revenue growth.

1994-95 Revenue Outlook		Table 10
	$ millions	Per cent growth
Total Tax	**33,165**	**4.3**
Personal Income Tax	14,810	3.5
Retail Sales Tax	8,610	7.4
Corporations Tax	3,780	21.9
Employer Health Tax	2,540	(4.0)
Gas and Fuel Taxes	2,450	3.6
Tobacco Tax	380	(51.0)
Land Transfer Tax	360	16.1
Other	235	(16.1)
Other Revenue	**4,723**	**(7.7)**
Federal Payments	**7,252**	**1.8**
Established Program Financing	3,657	(4.4)
Canada Assistance Plan	2,602	7.5
Canada-Ontario Infrastructure Works	253	
Other	740	(15.9)
Total Revenue	**45,140**	**2.5**

Total revenue growth is expected to be 2.5 per cent in 1994-95. This is a slower rate of growth than the forecast pace of expansion of nominal GDP and is the result of several factors. The reduction in tobacco tax alone reduces 1994-95 Tobacco Tax and Retail Sales Tax revenues by about $500 million and slows total revenue growth by a full percentage point. In addition, the Employer Health Tax initiative announced in the Budget reduces taxation revenue this fiscal year by $200 million. Year-over-year declines in planned asset management activities in 1994-95 and continuing limits on federal transfer payments to Ontario also restrain revenue growth. A number of one-time payments that boosted 1993-94 revenues such as the payment received from the federal government under the Fiscal Stabilization Program and Social Contract recoveries also contribute to the slower revenue growth in 1994-95. Accounting for all of these factors, 1994-95 revenue grows in line with the economy.

Tax Revenues

Total tax revenue is expected to be $33,165 million, an increase of 4.3 per cent from 1993-94, a pace consistent with growth in the economy. While the growth of total tax revenue is boosted by the impact of maturing 1993 Budget measures and lower repayments to the federal government for past PIT overpayments, the impact of these factors is largely offset by the tobacco tax cut and the Employer Health Tax initiative.

Personal Income Tax (PIT) revenues are expected to be $14,810 million in 1994-95, $497 million, or 3.5 per cent, above 1993-94. PIT growth is boosted by lower repayments to the federal government in 1994-95 for past overpayments and by base-broadening measures introduced in the 1994 Federal Budget. The PIT repayment in 1994-95 is forecast at $671 million. Excluding the impact of these factors, PIT revenues grow in line with expected income growth in Ontario.

Retail Sales Tax (RST) revenues are expected to grow by $590 million, or 7.4 per cent, to $8,610 million. The growth in RST revenue is boosted by the full-year impact of the RST base-broadening measures introduced in the 1993 Budget.

Corporations Tax revenue is expected to grow by $680 million, or 21.9 per cent, in 1994-95, reflecting the strong growth in corporate profits, reduced use of loss carrybacks by corporations, the full-year impact of 1993 Budget measures and the paralleling of federal Corporate Income Tax changes from the 1994 Federal Budget.

Employer Health Tax (EHT) revenue is forecast to decline by $105 million, or 4.0 per cent, below the 1993-94 level. This decline is due to the introduction in the Budget of the EHT initiative, which reduces EHT revenue by $200 million in 1994-95.

Revenue from the Tobacco Tax is forecast to decline by $395 million, or over 50 per cent from 1993-94, largely as a result of the tobacco tax cut.

Non-tax Revenues

Non-tax revenues are forecast to decline by $395 million in 1994-95. These revenues include LCBO profits, Other Fees and Licences, Vehicle and Driver Registration Fees, LLBO Fees and Licences, Lottery Profits, Royalties, and Sales and Rentals. This decline is largely a result of lower planned Asset Management Activities in 1994-95 and a lower level of Social Contract recoveries being received. This decline is also a result of weak LCBO profits, Vehicle and Driver Registration Fees, and LLBO Fees and Licences.

Non-Tax Revenue Strategy initiatives have served to offset some of this decline. This Strategy was introduced in 1992 and provides an opportunity for the Government to improve customer service delivery and improve program cost recovery as an alternative to further tax increases, program cuts or deficit increases.

The 1993 Budget introduced several initiatives that provide enhanced services. The Provincial Victim Fine Surcharge, created through amendments to the *Provincial Offences Act*, provides additional funding to support new and existing victims' assistance programs. Amendments to the *Provincial Offences Act* will permit our Fines Management Project to increase collections of unpaid court-ordered fines by allowing information to be directed to credit bureaus.

Other initiatives include the Windsor Casino and Project Fair Share, which expands audit and collections activity in several tax areas.

As part of this ongoing Strategy, new initiatives will be introduced for 1994-95 and announcements will be made in the coming months. For example, the Ontario Lottery Corporation will be introducing a new interprovincial lottery. Changes will be made to the *Crown Timber Act* to provide for the use of forest renewal trusts funded from stumpage fees as a step towards improved management of Ontario's forests.

Asset Management

The Government is committed to the effective management of the financial resources of this province to foster economic renewal, including its assets. Various asset management initiatives are planned for 1994-95.

With the completion of the GO Transit refinancing, similar transactions will be pursued with other new and existing equipment. These include various ministry and agency airfleets, ferries and heavy road equipment, with an estimated total value of $165 million.

Provincial land and buildings will be purchased, developed, managed and financed by the Ontario Realty Corporation, with revenues to the Province of about $250 million expected in 1994-95. Additional surplus land and property sales totalling about $17 million will also be undertaken by the Ministry of Natural Resources in 1994-95.

Federal Payments

Continuing federal limits on Established Programs Financing (EPF) and Canada Assistance Plan (CAP) transfers will restrain the growth of federal payments to Ontario in 1994-95.

Established Programs Financing payments are forecast to decline by $167 million in 1994-95 due to the impact of the federal per capita freeze on total EPF entitlements and forecast changes in the value of EPF tax transfers. EPF is paid through a combination of Personal and Corporate Income Tax transfers and residual cash grants, with increases in the value of the tax portion offset by equivalent reductions to the cash component.

Canada Assistance Plan payments are forecast to be $2,602 million in 1994-95. This includes $100 million in payments for prior-year claims that are not subject to the current five per cent ceiling on growth of CAP entitlements to Ontario. Had the original terms of CAP not been changed by the federal government, it is estimated that federal transfers to Ontario would have been $1.7 billion higher in 1994-95.

The federal government is also expected to contribute $253 million in 1994-95 under the Canada-Ontario Infrastructure Works agreement, matching an equal contribution from Ontario.

Details of 1994-95 revenues are found in Table C2.

1994-95 Operating Expenditures

In 1994-95, the Government will reduce program spending by $347 million, or 0.8 per cent. This represents the second year in a row that program spending will actually fall. Permanent savings have been achieved through ongoing expenditure control.

For 1994-95, 14 out of 20 ministries will operate with smaller budgets than they had last year. Spending on transportation, communications, services, supplies and equipment will be 25 per cent lower than it was just three years ago. Spending on total overhead costs, including payroll, has been reduced by $1.2 billion, or 16 per cent, over the same period.

New savings measures identified for this year are broadly based, involving the participation of all ministries. Examples of expenditure reductions identified in this year's process include the following:

- Almost $200 million will be saved by limiting the growth of some programs, improving the management of other programs, and further reducing ministries' overhead;
- Almost $50 million will be saved from the social assistance program annually through equalizing the rate paid to individuals and their spouses; paying actual shelter and utility costs rather than a flat minimum rate; and applying a minimum boarder charge to recipients who have older children living with them. Freezing social assistance rates at their 1993-94 levels will also help to control 1994-95 costs;
- A further $60 million will be saved through the recently announced initiative to reduce welfare fraud through a re-examination of every social assistance case file;
- $100 million will be saved by reducing the amount available for program expansions and new spending initiatives.

In addition, the Government will realize over $300 million in expenditure reductions in this and each of the next two fiscal years by reducing the Government's contributions to pension plans in the Ontario Public Service (OPS). Reflecting the agreement reached with the Ontario Public Service Employees Union (OPSEU), announced on April 13, 1994, legislation will be introduced to split the Public

Service Pension Plan by creating a separate pension plan for current members who are represented by OPSEU. This separate plan will be jointly trusteed and guaranteed by OPSEU and the Crown. Legislative amendments will also allow the Government to use savings in the two pension plans, due to gains from lower-than-projected inflation and salary increases, to reduce the Government's payments. Similar discussions are under way with other groups in the Public Service Pension Plan. None of these changes will affect the security of pensions for OPS employees and pensioners.

In 1994-95, expenditures on Social Assistance, excluding the Ontario Drug Benefit Program, will increase to $6.3 billion, up 2.1 per cent over the 1993-94 outlook. This increase is necessary to meet expected caseload growth.

In order to provide subsidized child care spaces, the 1994-95 budget for Child Care will be $566 million, up $60 million over 1993-94.

To further reduce income disparities, the Government will increase its funding for Broader Public Sector pay equity by 31 per cent to $454 million in 1994-95.

Additional funding of $107 million will be provided for Long-Term Care. In 1994-95, this will fund full-year costs of the province-wide expansion of the Integrated Homemakers Program, further expansion of Home Care programs and additional supportive housing services.

The Government continues its commitment to provide a supply of affordable non-profit housing. An additional $98 million will be provided in 1994-95 to support new units occupied last year and this year.

An additional $33 million has been provided for expected growth in the Ontario Student Assistance Program (OSAP). The total OSAP budget will increase to $140 million in 1994-95.

For 1994-95, $83.2 million has been included in operating program expenditures for capital principal and interest repayments under the new loans-based financing approach to capital projects.

Interest on the Public Debt will increase by $955 million to $7,945 million.

1994-95 Capital Strategy

Capital investments planned for 1994-95 total $3.8 billion, financed by $2.2 billion in traditional grants and $1.6 billion of loans-based financing. The overall Government plan reflects a continued focus on strategic investments in areas required by a growing economy: transportation systems, health and education facilities, and water and sewer projects. The new capital Crown corporations are increasing their role in delivering these strategic investments.

The new corporations, created by the *Capital Investment Plan Act, 1993* will provide a more business-like and entrepreneurial approach to delivering the Government's capital investment plan by working with private partners. These partnerships will respond more quickly to business opportunities, offer new revenue sources, and ensure that capital projects are completed faster and at a lower cost. One of these four corporations, the Ontario Financing Authority, will provide innovative financing services to the other three corporations to enable them to carry out their mandates.

Ontario Transportation Capital Corporation

The Ontario Transportation Capital Corporation's new approach to delivering Highway 407 will greatly accelerate delivery of the highway and reduce costs by $300 million, or some 25 per cent over traditional methods. Under the new approach, the completion of the first 69 kilometres has been advanced by 16 years.

In addition, the corporation's access to tolls and other new revenue sources, such as benefit sharing charges and other contributions from beneficiaries, will provide funding for projects from those benefiting the most from their construction.

In order to recognize the benefits created by public transportation systems and the need for ongoing investment in their upkeep, the Government will dedicate certain transportation-related revenue sources to the Ontario Transportation Capital Corporation, including rights of way access fees. Amendments to the *Public Transportation and Highway Improvement Act* and the *Financial Administration Act* will be introduced.

Ontario Clean Water Agency

The Ontario Clean Water Agency is changing the way water and sewer services have been provided to municipalities. The Agency is re-engineering its business practices to take a more business-like and customer-oriented approach. This has resulted in a "Promise of Performance" to municipalities, whereby savings and cost overruns relative to estimates will be shared by the Agency. The Agency will compete, form partnerships and develop other innovative approaches to deliver clean water to its customers and protect the environment.

Ontario Realty Corporation

The Ontario Realty Corporation has acquired and will manage a number of existing Government lands and buildings and will also be responsible for the construction and management of new Government accommodation. Each property will be treated as a business centre to enhance service and reduce costs. The Corporation will administer the Province's Ontario Government Relocation Program and courts consolidation projects. The capital cost of these projects now in progress will amount to about $560 million and produce 8,800 construction jobs over the period ending in 1997.

Part III: Medium-Term Fiscal Plan

Table 11 summarizes the Province's fiscal plan to 1996-97. Budgetary requirements are expected to decline from $8.5 billion in 1994-95 to $4.4 billion in 1996-97. Factors contributing to the declining budgetary requirements include an ongoing commitment to expenditure control and higher revenues resulting from continued economic growth.

Revenue growth averaging 6.1 per cent over the medium term is due to economic growth and continued non-tax revenue and asset management activities. In 1994-95, program spending declines by 0.8 per cent from 1993-94 interim levels, and only grows at an average rate of 1.2 per cent annually over the medium term – below the projected rate of inflation. The level of planned spending has been balanced against the need to control the deficit, while at the same time minimizing adverse impacts on the economic recovery and job creation over the medium term.

Medium-Term Fiscal Plan — **Table 11**
($ Billions)

	1994-95	1995-96	1996-97
Revenue	45.1	48.3	50.8
Operating Expenditure:			
Programs	43.5	44.1	44.6
Public Debt Interest	7.9	8.5	8.8
Total	51.5	52.6	53.4
Operating Deficit	**6.3**	**4.3**	**2.6**
Capital Expenditure*	2.2	2.2	1.8
Budgetary Requirements	**8.5**	**6.5**	**4.4**
Fiscal Indicators (per cent)			
Program Spending Growth (excludes PDI)	(0.8)	1.2	1.1
Total Operating Expenditure Growth	1.2	2.1	1.6
PDI as % of Revenue	17.6	17.6	17.4
Debt as % of GDP	30.5	31.6	31.7
Budgetary Requirements as % of GDP	2.9	2.1	1.4
Ontario CPI	0.4	1.3	1.5
Nominal GDP Growth	4.1	5.4	6.1
Debt ($ Billion)	90.4	98.8	105.2

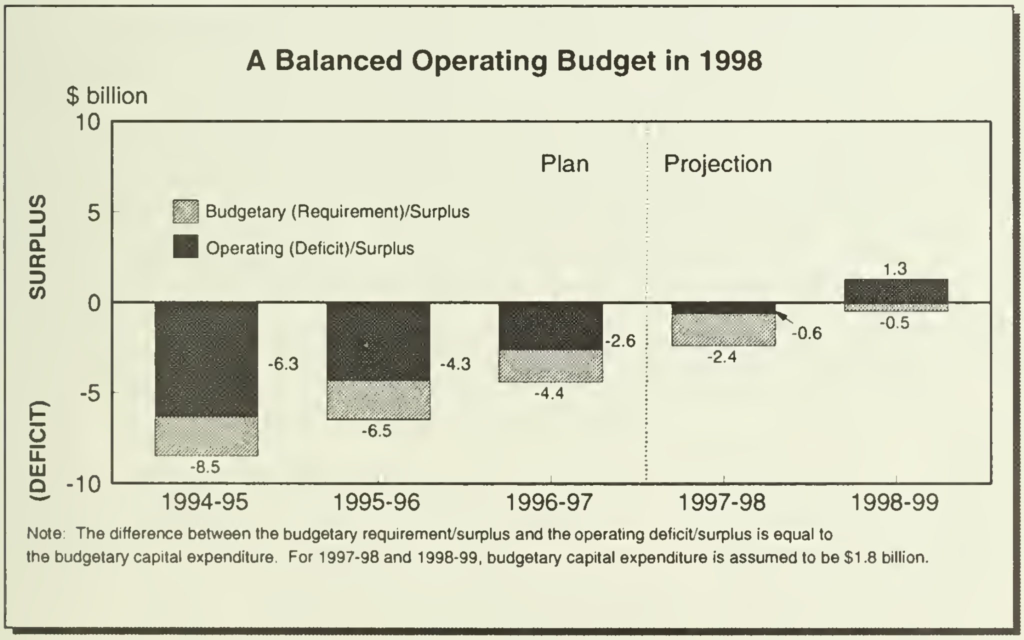
* Excludes alternative capital financing of $1.6 billion in 1994-95 and $1.9 billion in 1995-96 and 1996-97.

Note: Totals may not add due to rounding.

The Government remains committed to steady deficit reduction over the medium term. The Government also remains committed to balancing the operating budget by 1998-99 — as stated in last year's Budget.

The following chart illustrates that a balanced operating position is achievable by 1998-99, even with conservative assumptions. Building on the medium-term plan and extrapolating for a further two years, it was assumed that base revenues would grow by 90 per cent of the rate of nominal GDP growth, and program spending growth would be contained to less than the rate of inflation. In addition, the projection includes no new tax increases. Under this scenario, an operating surplus of $1.3 billion is attained by 1998-99.

Figure 8



The Government is maintaining its commitment to investment in capital infrastructure over the medium term. The increasing role of capital corporations and alternative financing methods will continue, as shown in the following table.

Medium-Term Capital Plan **Table 12**
($ Billions)

	1994-95	1995-96	1996-97
Budgetary	2.2	2.2	1.8
Non-Budgetary	1.6	1.9	1.9
Total Capital Plan	**3.8**	**4.1**	**3.7**

Note: Medium-term capital plan includes both the provincial and federal contributions to Canada-Ontario Infrastructure Works.

Part IV: Borrowing and Debt Management

In 1993-94, the Province borrowed a total of $12.9 billion. This was achieved primarily through raising $12.0 billion in the capital markets, supplemented by about $900 million from non-public sources. The proceeds of these borrowings were used to finance the $9.4 billion budgetary requirements, retirements of $1.4 billion and $1.2 billion for alternate financing arrangements, as well as to pre-borrow for the 1994-95 fiscal year.

Borrowing requirements for 1994-95 are forecast to be approximately $11.4 billion. This is composed of $6.3 billion for funding the operating deficit, $2.2 billion for capital spending, $1.9 billion for alternate financing arrangements and $1.0 billion for refinancing maturing debt.

The Province's total direct debt at March 31, 1995 is forecast to be about $90.4 billion, up from $80.2 billion on March 31, 1994.

Ontario continued its diversification and innovation in financing last year. In addition to the Global bond and domestic Canadian markets, Ontario issued in the U.S. domestic, EuroCanadian, EuroSterling and EuroDeutschemark markets. The Province also issued medium-term notes (MTNs) under its EuroMTN facility and launched its first floating-rate note (FRN). The Province will continue to develop financing strategies that encourage a broad range of investors to purchase Ontario securities.

The Province and Ontario Hydro continue to work jointly to access global capital markets. This results in lower borrowing costs for Ontario's credit, a high degree of financing flexibility, and a broader investor base. Sophisticated risk-management activities, combined with ongoing portfolio analysis through debt-modelling techniques and prudent cash management, enable the Province to identify and minimize exposure to currency and interest rate risk. This is increasingly important, given the level of public-sector debt in Canada.

Given Ontario's high proportion of fixed-rate debt, volatility in financial markets has only a small impact on its public debt interest costs. For example, a one per cent rise in interest rates across the maturity curve would increase Ontario's annual debt interest costs by $75 million.

As part of overall debt management, a new Crown corporation, the Ontario Financing Authority (OFA), has been established with a mandate to transact financing on behalf of the Province. The OFA encourages investment in Ontario's economy through the adoption of new and innovative financing arrangements.

For example, the OFA has had a major role in a number of infrastructure projects, including developing financing strategies for the expansion of the Metro Toronto Convention Centre and the Highway 407 project. The OFA also assists the Crown corporations in developing their financial strategies, and will continue to help as specific projects are identified.

The OFA arranges and coordinates Ontario's capital markets, borrowing program and provides banking, cash, risk and investment management services to the Province and its Crown corporations. Centralized financing through the OFA will help minimize borrowing costs for the Province and avoid duplication of finance-related activities. The OFA also maintains a strong investor relations program, on behalf of the Ontario credit, and continues to broaden the investor base for all Ontario securities by keeping both institutional investors and the public informed of Ontario's major financial, economic and fiscal developments.

APPENDIX

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

Operating	1992-93	Interim 1993-94	Plan 1994-95
Revenue	41,807	44,050	45,140
Operating Expenditure			
Programs	45,350	43,890	43,543
Public Debt Interest	5,293	6,990	7,945
Total	50,643	50,880	51,488
Surplus (Deficit)	(8,836)	(6,830)	(6,348)
Capital Expenditure	**3,592**	**2,600**	**2,200**
Budgetary (Requirements) Surplus	(12,428)	(9,430)	(8,548)
Financing:			
Debt Issues – Net (Table C5)	15,483	11,470	10,069
POSO and Other Liabilities (Table C5)	41	89	125
Net Financing (Table C5)	15,524	11,559	10,194
Net Loan Repayments (Issues) (Table C6)	(309)	(1,210)	(1,901)
(Increase) Decrease in Cash	(2,787)	(919)	255
Transfer to Capital Account	(3,592)	(2,600)	(2,200)
Increase (Decrease) in Accumulated Operating Deficit	**8,836**	**6,830**	**6,348**

Revenues **Table C2**
($ Millions)

		Actual 1992-93	Interim 1993-94	Plan 1994-95
Taxation Revenue	Personal Income Tax*	13,543	14,313	14,810
	Retail Sales Tax	7,316	8,020	8,610
	Corporations Tax	2,713	3,100	3,780
	Employer Health Tax	2,592	2,645	2,540
	Mining Profits Tax	27	85	90
	Gasoline Tax	1,834	1,900	1,970
	Fuel Tax	439	464	480
	Tobacco Tax	969	775	380
	Land Transfer Tax	363	310	360
	Race Tracks Tax	82	77	75
	Commercial Concentration Tax	111	52	–
	Other Taxation	52	66	70
		30,041	31,807	33,165
Other Revenue	LCBO Profits	615	585	580
	Vehicle/Driver Registration Fees	665	725	740
	LLBO Fees, Licences and Permits	511	522	530
	Other Fees and Licences	584	660	705
	Lottery Profits	538	564	575
	Royalties	191	222	270
	Utility Service Charges	167	100	–
	Sales and Rentals	512	1,158	645
	Fines and Penalties	152	115	210
	Recoveries	125	209	135
	Reimbursements	133	180	160
	Miscellaneous	19	78	173
		4,212	5,118	4,723
Payments from the Federal Government	Established Programs Financing	4,316	3,824	3,657
	Canada Assistance Plan	2,283	2,421	2,602
	National Training Act	104	78	76
	Bilingualism Development	70	60	77
	Young Offenders	60	60	81
	Vocational Rehabilitation	75	68	66
	Fiscal Stabilization	300	227	–
	Canada-Ontario Infrastructure Works	–	–	253
	Other	346	387	440
		7,554	7,125	7,252
Total		**41,807**	**44,050**	**45,140**

* Net of tax credits of $435 million in 1992-93, $920 million in 1993-94 and $960 million in 1994-95.

Operating Expenditures **Table C3**
($ Millions)

		Actual 1992-93	Interim 1993-94	Plan 1994-95
Ministry	Agriculture, Food and Rural Affairs	552	521	487
	Attorney General	737	756	724
	Board of Internal Economy	133	140	139
	Citizenship	67	71	79
	Community and Social Services	8,540	9,100	9,372
	Consumer and Commercial Relations	173	177	154
	Culture, Tourism and Recreation	424	400	377
	Economic Development and Trade	345	342	316
	Education and Training	9,896	8,936	8,782
	Environment and Energy	437	335	276
	Executive Offices	14	13	12
	Finance – Own Account	885	459	432
	Contingency Fund	–	–	321
	Public Debt Interest*	5,293	6,990	7,945
	Francophone Affairs, Office of	4	3	3
	Health	17,528	17,465	17,352
	Housing	914	1,042	1,118
	Intergovernmental Affairs	9	7	7
	Labour	241	181	159
	Management Board Secretariat	644	553	570
	Municipal Affairs	1,070	831	778
	Native Affairs Secretariat	16	16	17
	Natural Resources	584	508	476
	Northern Development and Mines	105	82	72
	Solicitor General and Correctional Services	1,171	1,168	1,108
	Transportation	837	760	789
	Women's Issues, Office Responsible for	24	24	23
	Expenditure Savings and Constraints	–	–	(400)
Total		50,643	50,880	51,488

* Netted against Interest on Investment

Capital Plan **Table C4**
($ Millions)

	Ministry	Actual 1992-93	Interim 1993-94	Plan 1994-95
Budgetary	Agriculture, Food and Rural Affairs	21	14	12
	Attorney General	7	3	3
	Citizenship	15	9	8
	Community and Social Services	57	78	84
	Culture, Tourism and Recreation	97	45	26
	Economic Development and Trade	21	70	139
	Education and Training*	543	16	9
	Environment and Energy*	230	160	75
	Finance	3	3	1
	Canada-Ontario Infrastructure Works	–	–	465
	Health*	230	79	40
	Housing	85	95	58
	Management Board Secretariat*	192	164	122
	Municipal Affairs	18	13	–
	Native Affairs Secretariat	17	16	20
	Natural Resources	75	97	59
	Northern Development and Mines	239	211	192
	Solicitor General and Correctional Services	4	5	3
	Transportation*	1,738	1,522	1,102
	In-Year Savings	–	–	(218)
Sub-Total		**3,592**	**2,600**	**2,200**
Non-Budgetary	**Loan Based:**			
	Education and Training			
	• Colleges and Universities	–	98	96
	• School Boards	–	297	290
	• Canada-Ontario Infrastructure Works	–	–	35
	Health Facilities	–	150	173
	Crown Corporations			
	Clean Water Agency	–	65	280
	Ontario Realty Corporation	–	6	128
	Transportation Capital Corporation	–	238	598
Sub-Total		**–**	**854**	**1,600**
Total Provincial	**Capital Plan**	**3,592**	**3,454**	**3,800**
	Project Specific			
	Highway 407	–	–	300
	Metro Convention Centre	–	–	39
	Brampton Courthouse	–	–	10
Sub-Total		–	–	**349**
Total Provincial	**Capital Investment**	**3,592**	**3,454**	**4,149**

* See also Non-Budgetary section of this table to determine total capital for these ministries.

Financing ($ Millions)			Table C5
	Actual 1992-93	Interim 1993-94	Plan 1994-95
Debt			
Issues:	16,605	12,848	11,100
Retirements:			
Canada Pension Plan	(537)	(607)	(702)
Ontario Teachers' Pension Plan	(506)	(252)	(64)
Public Service Pension Plan	(62)	(106)	(104)
Municipal Employees Retirement Fund	–	(129)	(149)
Public	(7)	(273)	–
Other	(10)	(11)	(12)
	(1,122)	(1,378)	(1,031)
Net Debt Issues	15,483	11,470	10,069
Province of Ontario Savings Office – Net Deposits	28	(13)	20
Other Liabilities – Net	13	102	105
Net Financing	**15,524**	**11,559**	**10,194**

Loans and Investments ($ Millions)		Actual 1992-93	Interim 1993-94	Plan 1994-95
				Table C6
Repayments	Corporations, Boards and Commissions	79	93	72
	Water Treatment & Waste Control Facilities	70	30	19
	Tile Drainage Debentures	18	16	15
	Other	24	44	19
		191	183	125
Issues	Corporations, Boards and Commissions	419	1,325	2,000
	Water Treatment & Waste Control Facilities	75	60	15
	Tile Drainage Debentures	6	8	11
		500	1,393	2,026
Net Repayments	**(Issues)**	**(309)**	**(1,210)**	**(1,901)**

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

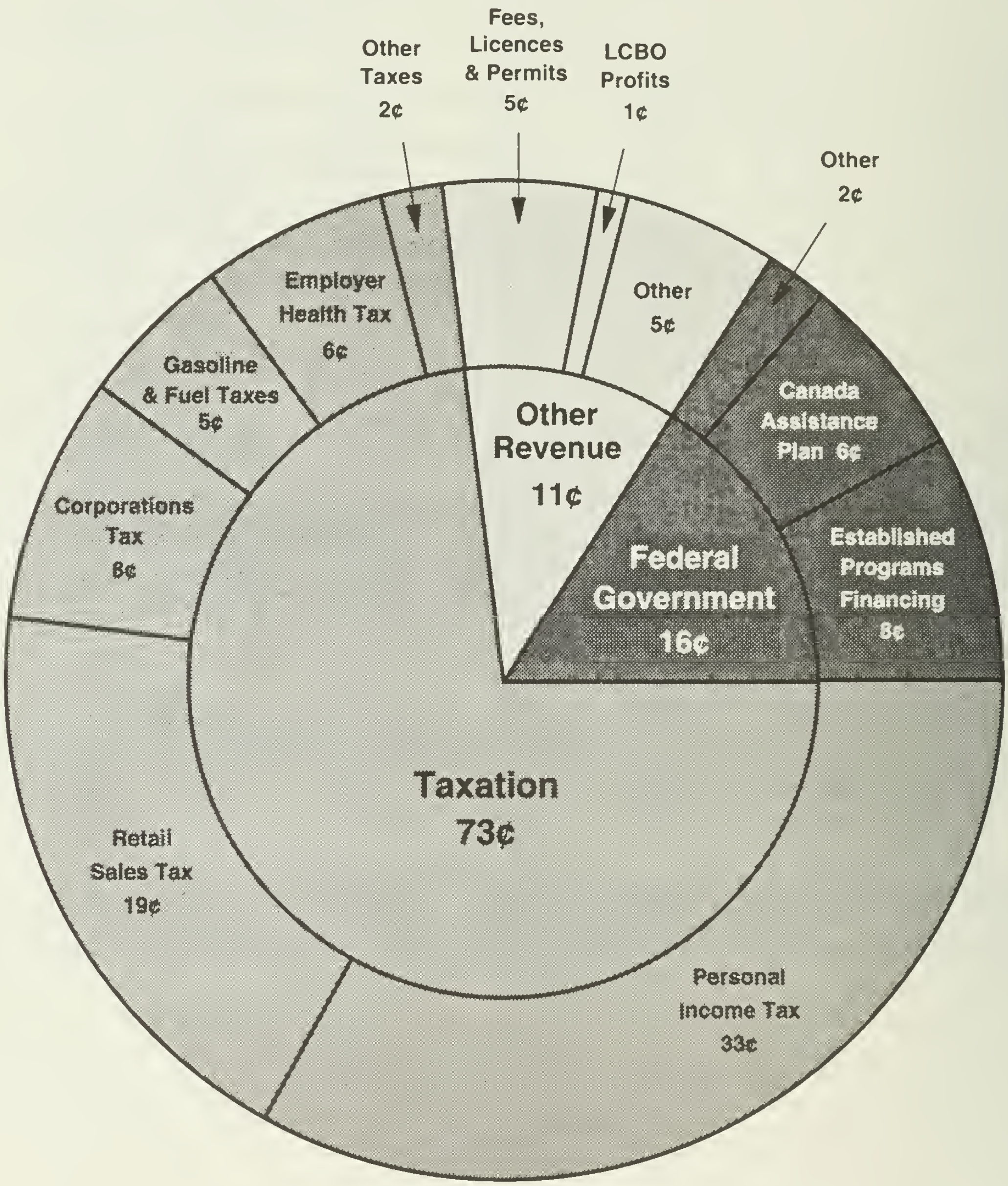
	1985-86	1986-87	1987-88	1988-89
Financial Transactions				
Revenue	25,785	29,215	32,158	36,991
Operating Expenditure (Excluding PDI)	23,405	26,166	28,548	31,435
PDI	2,795	3,210	3,476	3,767
Operating (Deficit) Surplus	(415)	(161)	134	1,789
Capital Expenditure	2,199	2,473	2,623	3,268
Budgetary (Requirements) Surplus	(2,614)	(2,634)	(2,489)	(1,479)
Accumulated Budgetary Requirements	28,919	31,531	34,020	35,499
Net Financing	2,863	2,199	1,878	2,033
Provincial Purpose Debt*	32,904	35,103	36,981	39,014
Gross Domestic Product (GDP) at Market Prices	183,732	202,710	223,862	252,946
Personal Income	156,362	169,294	186,085	207,287
Population – July (000s)	9,477	9,685	9,884	10,151
Total Debt per Capita (dollars)	3,472	3,624	3,742	3,843
Personal Income per Capita (dollars)	16,499	17,480	18,827	20,420
Expenditure as a per cent of GDDP	15.5	15.7	15.5	15.2
Public Debt Interest as a per cent of Revenue	10.8	11.0	10.8	10.2
Total Debt as a per cent of GDP	17.9	17.3	16.5	15.4
Cumulative Net Borrowing for Ontario Hydro				
U.S.	7,189	6,667	6,033	5,692
C.P.P.	1,000	1,119	1,508	2,097
Contingent Liabilities (mainly Ontario Hydro)	15,963	17,603	18,595	20,559

* Excludes borrowing for Ontario Hydro and all contingent liabilities.

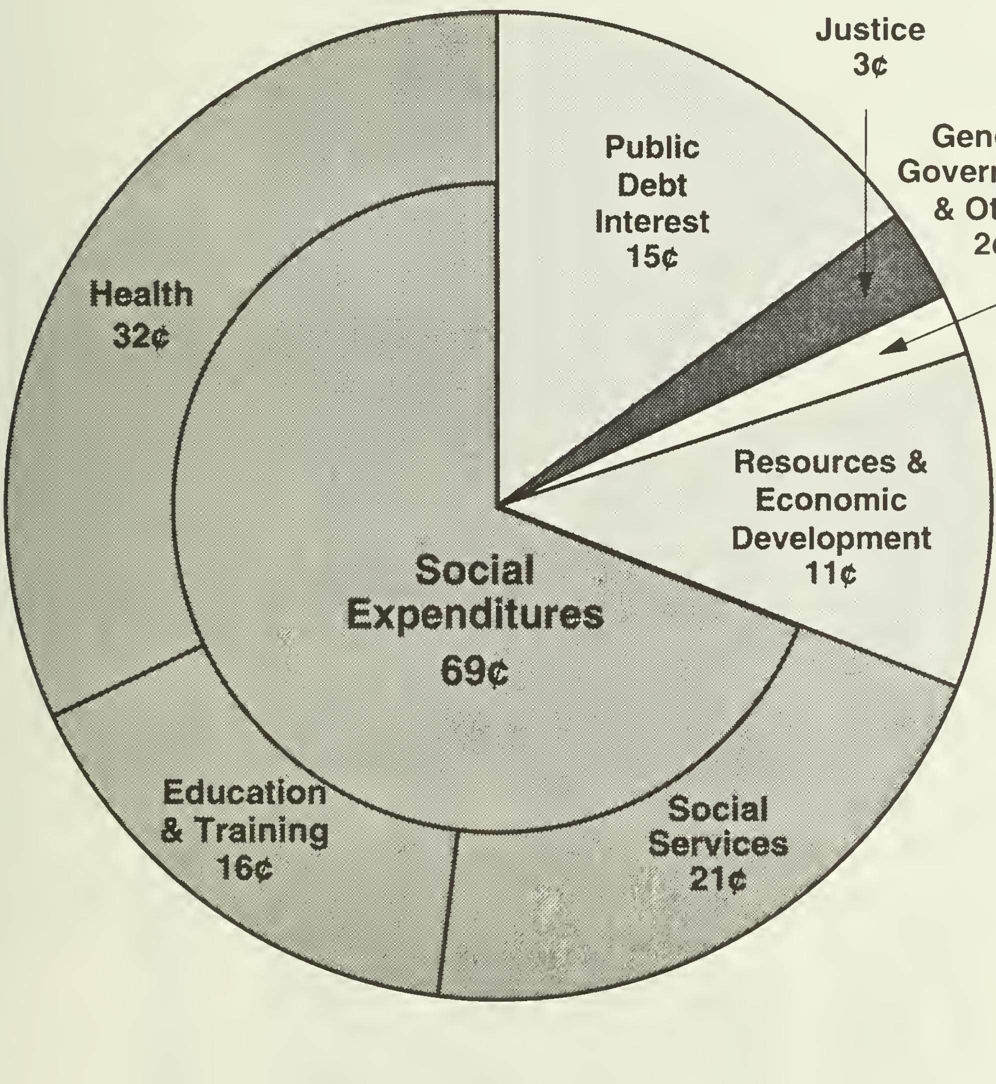
Table C7

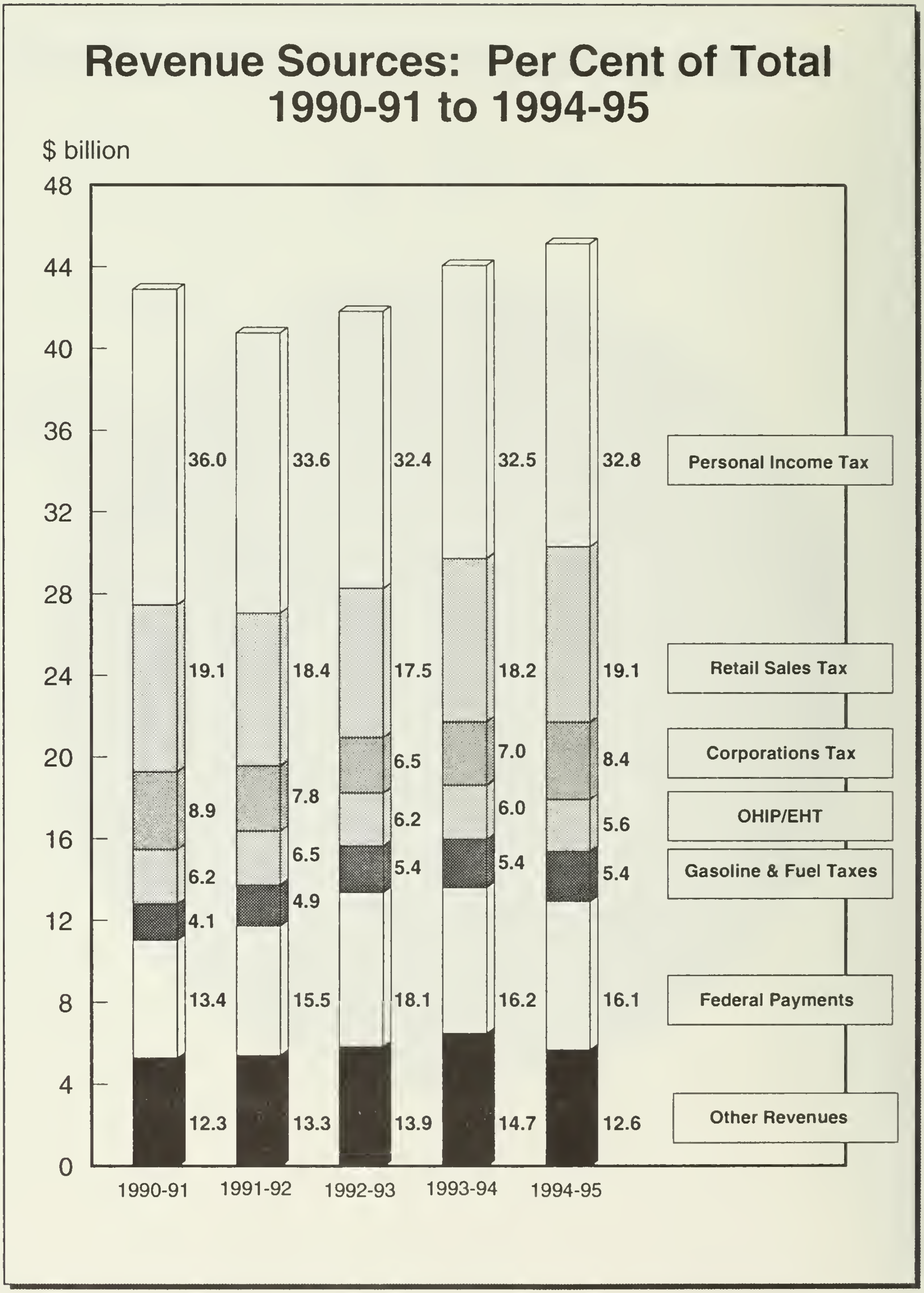
1989-90	1990-91	1991-92	1992-93	Interim 1993-94	Plan 1994-95
41,225	42,892	40,753	41,807	44,050	45,140
33,926	38,924	43,613	45,350	43,890	43,543
3,817	3,776	4,196	5,293	6,990	7,945
3,482	192	(7,056)	(8,836)	(6,830)	(6,348)
3,392	3,221	3,874	3,592	2,600	2,200
90	(3,029)	(10,930)	(12,428)	(9,430)	(8,548)
35,409	38,438	49,368	61,796	71,226	79,774
242	3,001	10,826	15,524	11,559	10,194
39,256	42,257	53,083	68,607	80,166	90,360
273,070	273,431	272,245	277,454	284,878	296,490
227,293	239,087	245,841	250,346	255,863	262,476
10,341	10,471	10,610	10,746	10,943	11,132
3,796	4,036	5,003	6,384	7,326	8,117
21,980	22,833	23,171	23,297	23,381	23,579
15.1	16.8	19.0	19.5	18.8	18.1
9.3	8.8	10.3	12.7	15.9	17.6
14.4	15.5	19.5	24.7	28.1	30.5
5,150	5,049	4,185	3,969	1,789	N/A
2,748	2,748	2,748	2,748	2,748	N/A
21,490	26,009	30,369	34,657	34,325	N/A

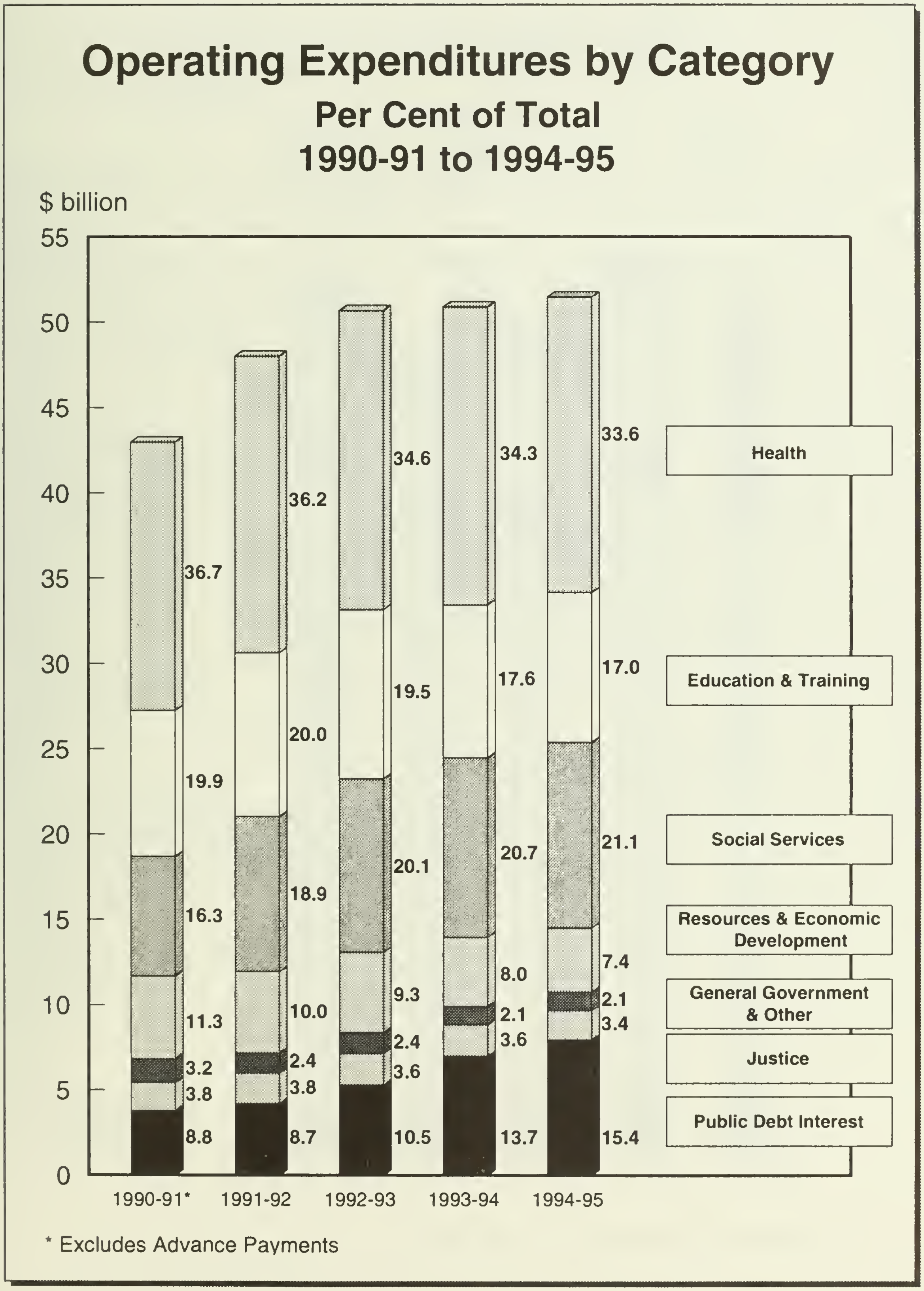
The Budget Dollar: Revenue, 1994-95



The Budget Dollar: Total Expenditure, 1994-95

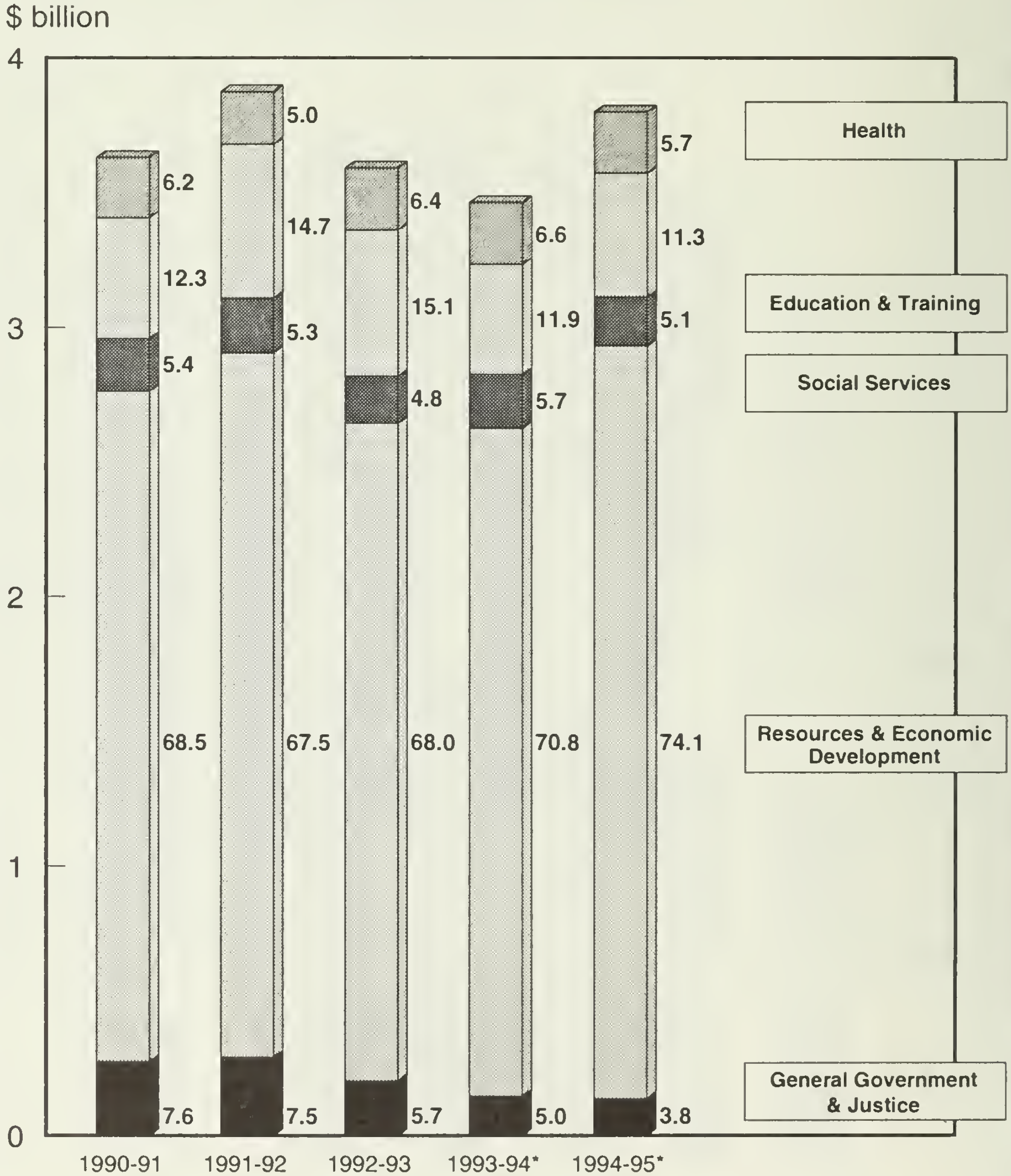



Revenue Sources: Per Cent of Total
1990-91 to 1994-95
$ billion
48
44
40
36
32
28
24
20
16
12
8
4
0
36.0
33.6
32.4
32.5
32.8
Personal Income Tax
19.1
18.4
17.5
18.2
19.1
Retail Sales Tax
6.5
7.0
8.4
Corporations Tax
8.9
7.8
6.2
6.0
5.6
OHIP/EHT
6.2
6.5
5.4
5.4
5.4
Gasoline & Fuel Taxes
4.1
4.9
13.4
15.5
18.1
16.2
16.1
Federal Payments
12.3
13.3
13.9
14.7
12.6
Other Revenues
1990-91
1991-92
1992-93
1993-94
1994-95


Operating Expenditures by Category
Per Cent of Total
1990-91 to 1994-95
$ billion
55
50
45
40
35
30
25
20
15
10
5
0
36.7
19.9
16.3
11.3
3.2
3.8
8.8
36.2
20.0
18.9
10.0
2.4
3.8
8.7
34.6
19.5
20.1
9.3
2.4
3.6
10.5
34.3
17.6
20.7
8.0
2.1
3.6
13.7
33.6
17.0
21.1
7.4
2.1
3.4
15.4
Health
Education & Training
Social Services
Resources & Economic Development
General Government & Other
Justice
Public Debt Interest
1990-91*
1991-92
1992-93
1993-94
1994-95
* Excludes Advance Payments

Total Capital by Category

Per Cent of Total
1990-91 to 1994-95



* Budgetary and Non-Budgetary Loans Based

Jobs[1] Created and Supported Through Major Initiatives **Table C8**
Ontario and Partners — 1991-92 to 1994-95
(person-years/placements)

Program/Project	1991-92 Jobs	1992-93 Jobs	1993-94 Jobs	1994-95 Projected Jobs
Anti-Recession	**17,000**	–	–	–
jobsOntario				
jobsOntario*Capital*		**89,250**	**78,300**	**93,100**
Base Capital	**75,600**	78,750	64,900	62,100
jobsOntario*Capital Fund*		10,500	11,300	8,800
jobsOntario*Community Action*	–	–	2,000	3,400
COIW[2]	–	–	–	14,900
Major Projects				
Brampton Court House	–	–	–	200
Highway 407	–	–	–	3,000
Metro Convention Centre	–	–	100	700
jobsOntario*Training*[3]	–	**7,570**	**25,300**	**24,000**
jobsOntario*Summer Employment*[4]	**12,960**	**20,160**	**20,700**	**23,300**
Housing	**30,200**	**35,800**	**22,700**	**20,500**
jobsOntario*Homes*	–	–	2,100	6,700
Other Social Housing	30,200	35,800	20,600	13,800
Windsor Casino	–	–	–	**5,600**
Total	**135,760**	**152,780**	**147,000**	**166,500**

Notes:
1. Person-years and placements based on Ontario plus partners' funding. Estimates of partners' contributions based on **jobsOntario***Capital* experience of 25 per cent of Ontario's contribution. For COIW, three levels of government contribute equal shares.
2. Canada-Ontario Infrastructure Works (COIW) Program. Shown separately, but funded by **jobsOntario***Capital Fund.*
3. Each trainee placement is for a 12-month contract period. Most jobs continue following training contract.
4. **jobsOntario***Summer Employment* includes, **jobsOntario***Youth*, Summer Experience, Environmental Youth Corp., NORTOP and others. Employment covers an average 8 to 12-week period.

Source: Ministry of Finance.