

## Introduction

This Statement is a report to Ontarians on actions to renew the province's economy and get Ontario back to work.

The people of Ontario have asked us to take on an important job: restoring confidence in this province as a place to live, to work, and to do business.

The plan I am introducing today is an essential part of our program to renew Ontario.

- Ontarians want jobs.
- They want to see a more secure and prosperous future for their province and their children.
- They want to see businesses that create new jobs and opportunities here at home while competing for markets around the world.
- They want an economy that is freed from the burdens of red tape and overtaxation – where individuals have the opportunity and the means to set goals for themselves and for their communities.
- They want a sound and affordable health care system, and schools where children learn.
- They want their government to focus on the services that Ontarians value most – to deliver those services as efficiently as possible – and to make changes when changes are needed.

Our Government is committed to creating an Ontario of opportunity rather than dependence, where genuine need is met with compassion and support, and where government is a partner in change rather than an obstacle.

Since taking office my colleagues and I have had to adjust to the reality of a fiscal situation that was worse than previously disclosed. We have faced an economic downturn that the forecasters did not predict.

## Renewing Ontario's economy and getting Ontario back to work

Appendix to the Ontario Economy

**Table 1** **The Ontario Economy, 1992-1997**

	(billions of dollars)					
	Actual			Forecast		
	1992	1993	1994	1995	1996	1997
<b>Real Gross Domestic Product (\$1986)</b>	<b>223.1</b>	<b>225.9</b>	<b>238.4</b>	<b>243.3</b>	<b>248.8</b>	<b>256.6</b>
Consumption	131.7	133.4	137.3	139.7	142.7	147.2
Government	50.5	50.1	50.2	49.8	47.1	44.2
Residential Construction	12.1	11.3	11.8	10.6	11.2	12.2
Non-Residential Construction	7.9	5.7	5.6	5.7	5.7	5.9
Machinery and Equipment	19.5	21.6	24.6	28.9	31.8	34.5
Exports	136.7	148.4	167.3	181.4	190.4	198.6
Imports	131.3	142.8	159.6	176.3	181.5	187.0
<b>Nominal Gross Domestic Product</b>	<b>282.0</b>	<b>287.7</b>	<b>302.5</b>	<b>310.8</b>	<b>322.5</b>	<b>338.0</b>
<b>Other Economic Indicators</b>						
Retail Sales*	68.7	71.3	76.0	79.6	82.7	86.9
Housing Starts - Units (000s)	55.8	45.1	46.6	33.1	42.5	55.0
Personal Income	250.3	252.4	258.1	266.4	274.8	286.2
Pre-Tax Corporate Profits	16.1	18.5	25.4	25.7	30.4	37.0
<b>Consumer Price Index (1986=100)</b>	<b>129.0</b>	<b>131.2</b>	<b>131.3</b>	<b>134.6</b>	<b>137.0</b>	<b>139.4</b>
<b>Labour Markets</b>						
Labour Force (000s)	5,610	5,692	5,707	5,736	5,823	5,924
Employment (000s)	5,001	5,089	5,160	5,232	5,313	5,412
Unemployment Rate (%)	10.9	10.6	9.6	8.8	8.8	8.6

\* GST excluded.

Sources: Statistics Canada and Ontario Ministry of Finance.

Appendix to the Ontario Economy

**Table 2** **The Ontario Economy, 1992-1997**

	(per cent change)					
	Actual			Forecast		
	1992	1993	1994	1995	1996	1997
<b>Real Gross Domestic Product</b>	<b>0.9</b>	<b>1.3</b>	<b>5.5</b>	<b>2.1</b>	<b>2.3</b>	<b>3.1</b>

Consumption	1.1	1.3	2.9	1.8	2.2	3.1
Government	0.6	-0.6	0.1	-0.8	-5.4	-6.2
Residential Construction	2.3	-6.8	5.0	-10.1	5.6	9.0
Non-Residential Construction	-17.8	-27.5	-2.2	1.4	0.8	4.0
Machinery and Equipment	1.0	11.1	13.8	17.4	10.1	8.5
Exports	6.2	8.6	12.7	8.4	5.0	4.3
Imports	5.0	8.8	11.8	10.4	2.9	3.0
<b>Nominal Gross Domestic Product</b>	<b>1.5</b>	<b>2.0</b>	<b>5.2</b>	<b>2.7</b>	<b>3.8</b>	<b>4.8</b>
<b>Other Economic Indicators</b>						
Retail Sales*	2.3	3.8	6.7	4.6	4.0	5.1
Housing Starts	5.6	-19.1	3.3	-29.0	28.4	29.4
Personal Income	2.1	0.8	2.2	3.2	3.2	4.1
Pre-Tax Corporate Profits	0.2	14.9	36.9	1.3	18.2	21.7
<b>Consumer Price Index</b>	<b>1.1</b>	<b>1.7</b>	<b>0.1</b>	<b>2.5</b>	<b>1.8</b>	<b>1.8</b>
<b>Labour Markets</b>						
Labour Force	0.5	1.5	0.3	0.5	1.5	1.7
Employment	-0.9	1.8	1.4	1.4	1.5	1.9
Unemployment Rate (%)	...	...	...	...	...	...

\* GST excluded.

... Figures not appropriate or not applicable.

Sources: Statistics Canada and Ontario Ministry of Finance.





**Listening to  
Ontarians**

**Getting out from  
under the burden of  
rising interest costs**

**Overspending, high  
taxes and deficit  
financing do not  
create  
lasting jobs**

We have listened – and will continue to listen – to constructive advice from Ontarians on how to meet our Government’s objectives in the face of changing circumstances. Some of that advice is reflected in today’s Statement.

Yet even as we adapt to changing circumstances, we remain committed to the objectives that Ontarians have asked us to pursue.

To achieve these objectives, we must get Ontario out from under the burden of rising interest costs. That’s why we are committed to stopping government overspending. That’s why we are taking other steps to encourage people and businesses to invest here and to create worthwhile jobs.

The size of our debt, and the interest we pay on it, mean we have to act quickly.

The root of our debt problem is government overspending. As a result of the fiscal situation we inherited, currently the government spends \$1 million *an hour* more than it receives in revenues.

We are determined to stop that.

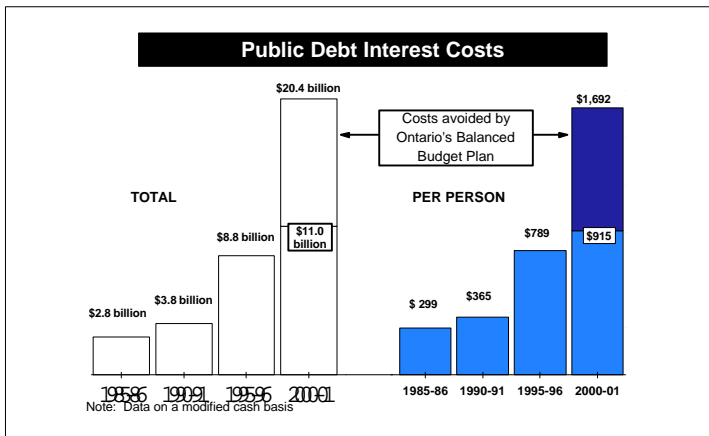
In the last 10 years government spending has almost doubled, while the accumulated debt has almost tripled. What do the people of Ontario have to show for it? Fewer jobs today than in 1989, higher unemployment and nearly three times as many people on social assistance as 10 years ago.

The experience of the past decade shows that overspending, high taxes and deficit financing do not create lasting jobs. In fact, they are barriers to job creation.

Over the past decade, previous governments financed some of their overspending by raising taxes. They raised taxes 65 times during those 10 years. Ontario’s personal income-tax rates are now among the highest in North America.

But these high taxes were not enough to cover government overspending. And so previous governments borrowed to fill the gap.

In the past 10 years our provincial debt has almost tripled. Soon, it will exceed \$100 billion. This year, we will pay close to \$9 billion in interest costs on that debt. This is more than what the Province spends on hospitals, and more than we spend on all levels of education. In fact, it is about as much as it cost to run the entire government in 1975.



Having to pay this much interest is crippling today, and unsustainable tomorrow.

Right now our interest bill translates into almost \$800 a year from each of us – from every man, woman and child in the province. If interest costs continue to grow at the rate of the past five years, they will cost each of us about \$1700 a year by the end of the decade. That’s a total of about \$20 billion a year.

**Rethinking  
government**

We cannot allow that to happen. If Ontarians had to pay \$20 billion a year just in interest costs, we could not possibly afford to educate our young people, take care of the sick and elderly, and protect our communities.

Six provinces have brought their interest costs under control by balancing their budgets this year. But not Ontario.

The only way to stop the growth of interest costs is to stop government overspending.

To do so means rethinking which services government should provide, and how it should provide them. We need to focus government spending on the services we value the most. And we need to restructure government and its agencies so that services provide better value for every tax dollar.

**A Climate for Job Creation**

Making government more affordable and more efficient is not just good for our finances. It's good for jobs too.

I am releasing today an economic paper that provides the economic context for the coming year.

**Signs of renewed  
economic growth**

Ontario is emerging from the recession that took place in the first half of 1995. We now see signs of renewed economic growth. Exports are rising. Consumer spending has begun to increase.

Our projections for future years – which are deliberately cautious, and in fact are lower than the consensus of other forecasters – show that the Ontario economy will continue to strengthen. In real terms, it is projected to grow by 2.1 per cent in 1995, 2.3 per cent in 1996 and 3.1 per cent in 1997.

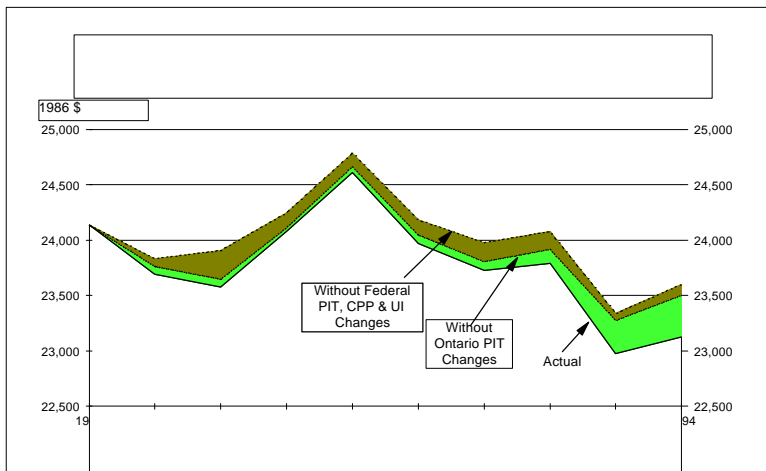


Inflation is projected to remain low, averaging below two per cent. Following a net increase of 72,000 jobs in 1995, employment is projected to rise by 81,000 jobs in 1996 and 100,000 jobs in 1997.

This economic outlook is prudent for planning purposes. But Ontarians deserve better.

For the past five years, our economy has not performed as well as those of the rest of Canada and the United States. While our export industries have expanded, household spending has been weak. Too many Ontarians are out of work. We have fewer people working today than in 1989.

**Creating an environment that supports job creation**



Even Ontarians who are working have seen their standard of living fall. In real inflation-adjusted terms, the take-home pay of the average Ontario worker is lower today than in 1985. That is 10 years without a pay increase.

One of the major reasons why Ontarians are seeing less in their paycheques is the increase in Ontario's personal income-tax rates. Ontario's income tax was hiked 11 times during the last decade. People who work every day to support their families have seen more and more of their hard-earned dollars go to pay higher and higher taxes.

**Leaving more money  
in the hands of  
taxpayers**

Middle-income families, and those with modest incomes, have been especially hard-hit by cuts in their take-home pay.

Ontarians deserve better. They deserve a plan that supports job creation. They deserve a plan that will stimulate the economy by leaving more money in the hands of hardworking, law-abiding, taxpaying Ontarians.

For too many years, the tax and regulatory environment in Ontario has frustrated job creation.

- High personal income taxes have taken money out of consumers' pockets, and have discouraged small businesses from investing and hiring.
- Payroll taxes like the Employer Health Tax and workers' compensation premiums have also worked against job creation. So have artificially high minimum wages, legislated job quotas and other government intrusions.
- Uncompetitive income tax rates have made it difficult for firms to attract and retain the highly mobile and highly skilled workers who are key to competing successfully.

As a result, our entire economy has suffered. Despite a growing population, today there are fewer Ontarians employed than there were six years ago.

The Ontario economy can do much better. And if we set the right course, I believe it will.

**Boosting job creation  
through lower taxes  
and less red tape**

- Lower taxes, coupled with lower interest rates and continued low inflation, will return more dollars to Ontario consumers. Their spending and saving will provide a direct boost to private-sector job creation in this province.
- Reducing the burden of government regulation and restoring the balance in labour-management relations will help businesses – especially small businesses – create jobs. Already our Government

has taken action, by repealing Bill 40, freezing average assessments for workers' compensation, introducing legislation to abolish the annual corporate filing fee, repealing job quotas, and freezing average Ontario Hydro rates for five years.

- As promised in the Throne Speech, today we are launching a 12-month review of all regulations affecting business. Mr. Frank Sheehan, the member for Lincoln, will lead this government initiative and will report directly to the Cabinet. By cutting red tape and eliminating any regulation of business that cannot be justified, the Red-Tape Review Commission will remove barriers to growth, promote economic prosperity, and create jobs.
- And by restructuring and streamlining government – providing the services that Ontarians value most, at a more affordable cost – we will end the job-killing effects of high deficits and high interest costs.

## **Actions to Introduce an Open and Realistic Financial Plan**

The first step towards a more affordable and efficient government is to have a realistic financial plan – a plan that Ontarians can understand and in which they can have confidence.

In July our Government established the Ontario Financial Review Commission. I asked them to look at ways to restore confidence and credibility to the Province's financial reporting and planning practices, which in my opinion have been confusing and sometimes unrealistic.

The Commission's report offers a new vision of how government should operate. It says that government should stop focusing on process, and instead set its sights on constant improvement in performance.

## **Restoring confidence in Ontario's financial reporting**

**Putting an end to the practice of keeping “two sets of books”**

As the Commissioners noted, some of their recommendations will require time to implement or should involve discussion by members of the Legislature. But I have already decided to act on several of the Commission’s most important recommendations:

- The Commission said the Province should adopt a single set of financial reporting standards for all of its budgetary reports and updates – using the standards set by the Public Sector Accounting and Auditing Board (PSAAB). I am doing so, effective today. I am ending the previous government’s practice of keeping “two sets of books.”
- The Commission said the government should adopt a prudent planning framework, using cautious forecasting, to be sure that deficit targets are met. The plan I am outlining today does exactly that.
- The Commission recommended that the government set out three-year deficit targets and provide a longer-term view of its targets for deficit and debt reduction. I agree – and in fact, today I am going further than this by providing deficit targets for the next five years.
- The Commission said our budgeting should include a contingency fund to cushion against unforeseen economic changes. I will do so starting with the 1996 Budget.

In taking these steps immediately, I want Ontarians to have confidence that their government’s financial planning is open, realistic and credible. I will further address the Commission’s recommendations in the spring of next year.

**Disclosure of public sector salaries**

As an additional step towards open and accountable government, I announced last week that we will require full public disclosure of salaries and benefits paid to senior employees in the public sector, starting with salaries for the 1995 calendar year. Taxpayers will have access to compensation data for each public sector employee who receives an annual salary of at

least \$100,000 in a calendar year – including employees of the civil service, hospitals, universities, colleges, school boards, municipalities and government agencies.

On taking office we found that the former government had chosen not to secure the necessary legislative authority for several tax measures announced in 1993 and 1994, even though those measures were implemented and have been in place for up to two and one-half years. They affect taxpayers, primarily corporations, who have been filing returns while expecting in good faith that the government would introduce the appropriate legislation. This situation is not acceptable and must be corrected.

To resolve this, I will introduce legislation to authorize formally these measures that the previous government implemented without seeking the necessary legislative sanction in a timely way. Details are provided in an attachment to today's Statement.

## **A Financial Plan for 1995-96**

Let me turn to our financial plan for the current fiscal year.

Last June 26, our Government inherited spending that was out of control. On a cash accounting basis, we faced a potential deficit of \$10.6 billion – with an outlook for even higher annual deficits for the foreseeable future.

On July 21, we took immediate action to reduce spending by \$1.9 billion in this year alone.

## **Clean-up of 1993 and 1994 tax legislation announced by former government**

With these actions in place, our 1995-96 deficit remains on track at \$8.7 billion on a cash accounting basis. That is \$1.9 billion lower than the potential deficit we inherited five months ago.

**1995-96 Deficit Outlook  
(\$ millions)**

	Potential outlook as of June 26	July 21 Outlook	Current Plan
Cash Basis	10,595	8,711	8,696
PSAAB Basis	11,188	9,323	9,308

Using the Province's new accounting basis, the deficit target for 1995-96 is \$9.3 billion. That again is \$1.9 billion lower than the potential deficit we inherited, which was \$11.2 billion on a PSAAB basis.

This new accounting recognizes a number of revenues and expenditures that are not new, but that historically have not been shown as part of the Province's budget – for example, the expenses of certain Crown corporations and agencies, the cost of pension liabilities, and the full cost of public debt interest incurred each year.

In addition, under the Province's new accounting, this year's deficit will reflect certain investments made by former governments that have not yet been written off, and accrual adjustments such as provisions for loan losses from the Ontario Student Assistance Program and the Ontario Development Corporations. It will also include any one-time costs incurred when programs are cancelled, and any commitments to severance payments that are made this year. These items will be added to the planned deficit target of \$9.3 billion once their amount has been determined.

**A new financial  
reporting standard  
for Ontario**

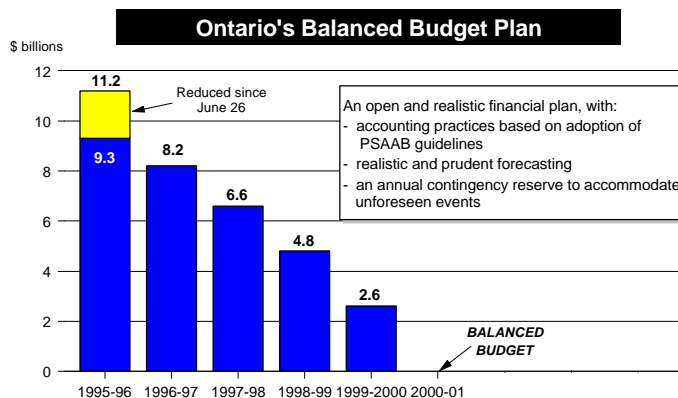
By converting to the PSAAB financial reporting standard, we are giving Ontarians a fuller and more realistic picture of the financial problems that their government has been experiencing for many years. That is an essential first step towards dealing with our problems while protecting Ontario's taxpayers.

## Actions to Provide Affordable Services, Protect Taxpayers and Balance the Budget

The best taxpayer protection is a balanced budget.

Having taken these first major steps to put the Province's financial reporting in order, I am setting out today a Balanced Budget Plan for Ontario.

**The best taxpayer protection -- a balanced budget for Ontario**



This plan is based on the deficit reduction targets for the next five years that we provided in the *Common Sense Revolution*.

Even though our reported deficit this year will be \$600 million higher under our new accounting system, we have not changed our plan to balance the budget, and we have not changed the balanced budget targets that will get us there. We said we would do it – and we are doing it.

**Bringing spending  
under control**

With this plan in place, Ontario will have a balanced budget in five years.

Balancing the budget will not be easy, but it is essential.

- It will help get Ontario's public debt interest costs under control.
- And it will protect taxpayers from never-ending tax increases.

On behalf of all taxpayers, let me say clearly: Ontarians have had enough of high personal income taxes.

That's true for Ontario's income taxes – and it is true for the federal government's as well. It is time for both levels of government to reduce the burden of personal income taxes and help the economy create more jobs.

Balancing the budget means we must rethink how governments and government agencies at all levels do business.

Since taking office my colleagues and I have begun a thorough review of every area of government spending. That means reviewing literally hundreds of government spending programs.

For every program we are asking, is it in the public interest? Does it help or hinder job creation? Is it fair and equitable? And is it well managed?

We have identified areas where government can spend less through smarter management. And we have identified areas where, in my opinion, there is simply no reason for government to be spending at all.

Governments have tried to be all things to all people. For example, should the Province of Ontario have signed an agreement in June of this year to provide a \$5.5 million research grant to the Ontario Federation of Labour? To serve people properly, governments must focus on priorities.



We have not yet finished our review. But we have already agreed on the following new measures to cut spending next year by focusing on what is important to Ontarians.

We will begin by putting our own house in order. The Government will ask the Legislature to approve funding reductions averaging at least 20 per cent next year for offices of the Legislature. This measure will save at least \$27 million annually.

We are setting cost reduction goals that will aim to reduce the cost of internal government administration by 33 per cent by the end of 1997-98 – saving \$300 million annually. Already we have taken action to save \$23 million this year. Over the next two years, we will cut costs further in every ministry through better management and reduced overlap and duplication. For example:

- Almost every one of the government's 18 ministries has its own financial data system, its own information technology system, and its own personnel database. We will determine how to consolidate these systems to reduce duplication and save taxpayers money.
- We will create partnerships with private businesses and open our administrative operations to outside competition, where this can save taxpayers money.

## **Reducing funding for offices of the Legislature**

## **Reducing government administration costs and improving efficiency**

**Restructuring  
government  
operations to  
reduce costs**

The Government has set a target of cutting other internal spending by an average of 33 per cent, to achieve an annual saving of \$1.1 billion by the end of 1997-98.

We will do so by restructuring, closing some operations, and making other operations more efficient. Some immediate examples:

- Funding for land registry offices will be cut to reflect reduced workloads, saving \$2 million next year and an additional \$2 million in 1997-98.
- Overhead costs in the Ministry of Economic Development, Trade and Tourism will be cut by \$10 million annually as business assistance programs are terminated.
- The Ministry of Finance will develop a comprehensive plan to reduce abuse of the tax system and improve overall tax compliance. Taxpayers who abide by the law should not subsidize those who break the law. As a first step, 50 positions from within the ministry will be reallocated to tax auditing.

**Cutting  
\$230 million in  
hand-outs  
to business**

As promised in the *Common Sense Revolution*, the Government will permanently cut \$230 million in grants and loans to business in 1996-97. To help achieve these savings, over 30 programs across six ministries will be ended. The Government will take immediate steps to phase down the operations of the Ontario Development Corporations in respect of new loans and loan guarantees.

This Government will support business by providing a positive business climate, with competitive taxes, responsible fiscal management, and fewer barriers to investment and growth.

**Reducing funding for  
agencies, boards and  
commissions**

The Government has set a target of reducing funding for agencies, boards and commissions by 28 per cent, to achieve an annual saving of \$220 million a year by the end of 1997-98. To date we have made the following decisions:

- The operating subsidy for the Ontario Northland Transportation Commission will be reduced by \$6 million next year and by an additional \$4 million in 1997-98.
- Funding for the Ontario Arts Council will be reduced from current levels by 19 per cent in 1996-97.
- Funding for the Ontario Science Centre, Science North, the Royal Ontario Museum, the Art Gallery of Ontario, the McMichael Canadian Art Collection and the Royal Botanical Gardens will be reduced from current levels by an average of seven per cent next year.
- Funding for CJRT-FM, the government-funded radio station, will be eliminated next year, saving over \$1 million.
- Funding for the Ontario Energy Board, the Niagara Escarpment Commission, the Environmental Appeal Board and the Environmental Compensation Corporation will be reduced by an average of 15 per cent next year, saving over \$1 million.

As promised in the Throne Speech, the Management Board of Cabinet will undertake a detailed review of agencies, boards and commissions. Mr. Bob Wood, the parliamentary assistant to the Chair of Management Board, will lead this initiative.

We have set a goal of cutting total funding for government grants by 28 per cent over the next two years, saving \$1.4 billion annually by the end of 1997-98. Already we have decided on the following reductions:

- The Jobs Ontario Community Action program will be terminated, saving \$82 million next year and \$88 million in 1997-98. This program was badly designed, objectives were unclear, and oversight and cost-control requirements were inadequate. The Provincial Auditor has also criticized this program extensively in his recent report.
- An array of environmental and energy grants will be eliminated, saving \$24 million next year.

## **Cutting government grants**

- Capital subsidies for GO Transit will be reduced by \$20 million annually.
- Grants to municipal airports will be reduced by \$4 million next year and by an additional \$5 million in 1997-98.
- Grants provided by the Ministry of Citizenship, Culture and Recreation to cultural organizations, including arts and heritage groups, local festivals, library agencies and funding for community information centres, will be reduced or eliminated to achieve an average saving of 18 per cent from current levels. This measure will save \$5 million next year.
- Grants for sports and recreation groups and associations will be reduced by an average of 15 per cent from current levels, saving \$3 million annually beginning in 1996-97.

The actions I have outlined, coupled with the ongoing savings from measures announced in July and further decisions to be taken during the Estimates process, will mean significant reductions in government spending in the next two years. But they are not enough.

Almost 70 per cent of the Government's total spending is transferred to agencies and individuals outside of government – including municipalities, school boards, universities, colleges, hospitals, and many smaller agencies.

Ontarians will be aware that the federal government's support for some of the largest transfer programs is declining. Over the next two years, federal contributions to Ontario for health, higher education and social services will decline by \$2.2 billion from this year's level.

In recent weeks I have met with leaders from our major transfer partners. They impressed on me the need for action. They told me that, just as the government is restructuring internally, their institutions are restructuring as well – focusing on the services

## **\$2.2 billion reduction in federal support**

### **Working with major transfer partners to restructure**

that Ontarians value most, and finding ways to provide those services more affordably. They told me they need additional tools to assist them in their restructuring efforts.

To help them prepare, today we are giving our transfer partners early notice of transfer levels for 1996-97. And we are giving them additional flexibility to introduce innovative solutions that will help them meet the challenge.

In response to requests from groups representing our major transfer partners, I will introduce legislation to guide interest arbitration awards. These guidelines are intended to ensure that arbitrated wage settlements are in step with the province's fiscal situation and with our transfer partners' ability to pay.

Municipalities have asked for greater flexibility to set priorities and to restructure.

- To assist them, we will convert three existing programs into a single block fund – the Ontario Municipal Support Program. This new arrangement will free municipalities to pursue innovation by eliminating the restrictions of current programs.
- They have also asked the Province for flexibility to help reduce overlap and duplication among municipalities and between upper- and lower-tier municipalities. We will give them that flexibility.
- They have asked the Province to reduce barriers that prevent them from offering services on a cost-recovery basis. We will reduce those barriers.

Funding for the Ontario Municipal Support Program will total \$1.0 billion in 1996-97. This is a reduction of \$290 million from current levels, equal to two per cent of municipalities' current total revenues of approximately \$16.8 billion. The distribution of the block grant will be designed to make spending reductions fair for municipalities.

## **Guidelines for interest arbitrators**

## **A new block fund for municipalities**

**Excellence in  
classroom education**

The Government believes that, by using the tools and flexibility for which they have asked, municipalities can adjust to these reductions by restructuring their operations, and without increasing local taxes.

In 1997-98 funding for the Ontario Municipal Support Program will total \$736 million. That is a reduction of \$262 million, equivalent to another two per cent of municipalities' current spending.

Grants for municipal recycling will be phased out over two years. Operating grants to municipal public libraries will be reduced by \$6 million next year and an additional \$6 million in 1997-98.

Operating funding for conservation authorities will be reduced from \$18 million this year to \$10 million in 1997-98, and capital grants will be phased out.

Provincial support for the operation of municipal transit will be reduced from \$242 million this year to \$218 million next year. Funding of \$194 million will be provided in 1997-98. Funding to municipalities for specialized transit services for people with disabilities will be maintained at current levels.

These measures create the opportunity for local governments to become more streamlined, more autonomous, more accountable to the local ratepayer, and less expensive. Ontarians expect to see their local governments work better and cost less.

Our Government is committed to ensuring that a larger share of the education dollar goes to the classroom, preparing Ontario's students for the future.

Our school system is well funded. In fact, Ontario's school system cost 10 per cent more per pupil than the average of the other provinces in 1994-95. That's \$1.3 billion a year in extra spending. But even with this level of spending, Ontarians do not have the school system they want:

- Our schools should be providing students with greater equality of opportunity – through funding that is shared fairly across the province.

- Parents should have more effective opportunities to become involved in their children's education, through local school councils.
- Parents should be able to see what their children are learning, through tests that measure results against clear standards.
- The importance of good teaching should be recognized throughout the school system.
- And our schools ought to be making more effective use of new technologies to educate students better and to manage more productively.

Over the coming year, the Minister of Education and Training will work with the education community to make the school system more effective, more equitable, more accountable and less expensive.

- We will ask school boards to take every reasonable step to cut costs outside the classroom. These costs now account for at least 30 cents of every education dollar.
- We will work with school boards, teachers and parents to improve productivity in the schools.
- We will continue to work with the education community on a new financing formula that will distribute school funding more equitably.

As set out in the *Common Sense Revolution*, next year we will reduce transfers to school boards by \$400 million. This figure is equal to three per cent of the \$13.8 billion total cost of operating Ontario's schools.

The Ministry of Education and Training will ensure that this reduction is equitably achieved. The Government fully expects boards to meet this reduction by cutting costs outside the classroom, and without increasing the tax burden on local ratepayers.

**Setting goals for  
universities  
and colleges**

Reductions in transfers to school boards for 1997-98 will be announced as early as possible next year.

In 1996-97, transfers to universities will be \$1.5 billion, a reduction of \$280 million. Transfers to colleges will be \$689 million, a reduction of \$120 million. The total reduction in provincial funding for post-secondary education will be \$400 million – equivalent to seven per cent of total expenditures by colleges and universities in Ontario.

Tuition fees for colleges will increase by 15 per cent and universities will be able to increase tuition fees by 10 per cent. University tuition will be further deregulated by allowing universities the discretion to increase fees by an additional 10 per cent. The Ministry of Education and Training will work with colleges and universities to deregulate foreign student tuition fees as quickly as possible. Institutions will be required to set aside 10 per cent of any new revenues from tuition increases for the purpose of providing assistance to students in financial need.

As promised in the *Common Sense Revolution*, the Government is now pursuing a review of the current student assistance program. Ontario will seek the federal government's assistance to develop a student aid plan in which repayments reflect income after graduation.

The Minister of Education and Training will release a discussion paper in the new year on future goals for Ontario's colleges and universities. The paper will address issues such as student and provincial shares of post-secondary funding, accessibility, and program rationalization and co-operation. A four- to six-month consultation process will be undertaken to assist in developing a new framework for government policy on post-secondary education. The Minister of Education and Training will provide further details shortly.



Despite the need to reduce overall spending, our Government remains committed to protecting our health care budget.

Yet this is not a commitment to maintain the status quo. We need to find savings in some areas in order to meet new needs in other areas – for example, to provide new technologies, to reduce waiting lists, and to meet the needs of an aging population.

By acting to reduce spending on some health programs and reinvest in others, we will ensure that total health care spending at the end of our term of office is protected at no less than \$17.4 billion – the same level as when the *Common Sense Revolution* was published.

Already our Government is taking steps to reinvest health dollars where they are needed most:

- An extra \$25 million is being reinvested in kidney dialysis services.
- \$15.5 million is being reinvested in expanding emergency paramedic services, providing advanced training to almost 400 paramedics across the province.
- OHIP coverage for out-of-country emergency services has been restored.
- We are planning to reinvest additional funds to permit patients with acquired brain injuries to be treated here in Ontario, rather than in the United States.
- And extra funding will be reinvested to expand immunization programs. The Minister of Health will provide further details.

In the Throne Speech we identified other priority areas for reinvestment. We need to improve access to care for Northern and rural Ontarians who face the reduction or loss of hospital emergency room coverage. We will do more to coordinate, streamline and better integrate the delivery of cancer care services.

## Protecting health care funding

To make these reinvestments possible, we must begin by finding additional savings in the existing health care budget. Institutions must restructure, and programs must be redesigned to provide better value.

When it comes to restructuring, Ontario's hospitals have been leading by example. They are treating more patients each year. They are redirecting more dollars to front-line patient care, and providing the type of care that is most appropriate to each patient.

Yet hospitals must continue to restructure. The former government closed 6,700 acute-care beds over the past five years. That is the equivalent of 30 medium-sized hospitals. But since no hospital was ever closed, this has left a hospital system that is in many ways inefficient and hard to manage.

Like all of Ontario's public institutions, hospitals must continue to make improvements in providing services efficiently, effectively and economically.

To have the flexibility to meet priority health care needs, the Government will redirect funds from hospital transfer payments. We will provide hospitals with a three-year funding plan, just as they asked, so they can plan for the future with certainty. And we will give them the tools they have asked for in order to adapt.

Funding in 1996-97 will be constrained by \$365 million – equal to about four per cent of hospitals' total revenues of approximately \$8.5 billion. The amount of the constraint will increase by \$435 million in 1997-98 and by an additional \$507 million in 1998-99.

- To assist hospitals to restructure further, the Minister of Health will establish a Health Services Restructuring Commission to manage and accelerate the implementation of hospital restructuring regionally and locally.
- Hospitals will be given more flexibility to generate revenues while continuing to comply fully with the Canada Health Act.

- And to reduce hospital administration costs, the Ministry of Health will simplify approval processes.

The Government will also take steps to address longstanding problems with the delivery of physicians' services. We will ensure a fair distribution of doctors between urban and rural areas, and we will weed out fraud in our health insurance plan. In addition, taxpayers will no longer be asked to pay for doctors' malpractice insurance, saving \$40 million annually. The national physician malpractice insurance plan has a surplus in current account of approximately \$1 billion.

The Government will take steps to control the cost of the Ontario Drug Benefit Plan (ODB), which has more than tripled in the past decade and now stands at \$1.2 billion. Effective June 1, 1996, people receiving drug benefits will be asked to share the costs, as they now do in other provinces. Social assistance recipients and seniors receiving the Guaranteed Income Supplement (GIS) will be asked to make a co-payment of \$2 per prescription.

Beneficiaries of the Ontario Drug Benefit Plan with individual incomes exceeding \$16,000, or with family incomes exceeding \$24,000, will be asked to pay a deductible of \$100 per year and to pay the pharmacist's dispensing fee. These measures will save \$225 million annually.

Our Government has a responsibility to work with public institutions to assist them in becoming more efficient. We are living up to that responsibility.

At the same time, I ask all Ontarians to consider what they can do directly to support health care, community services, education and cultural institutions in their communities. Each of us has the opportunity to make a difference – by volunteering our time, our skills, or our financial support. Together, Ontarians can give back to their communities far more than government can provide alone.

## **Reforming the Ontario Drug Benefit Plan**

## **Encouraging voluntarism**

**Savings of \$4.5 to 5.5  
billion in 1996-97**

**Referendum on  
casino development**

In response to a number of requests, I will introduce legislation to make it easier for certain public institutions to solicit major charitable donations.

- Public hospitals, public libraries, the Ontario Cancer Treatment and Research Foundation, the Ontario Arts Council, the Royal Ontario Museum, the Art Gallery of Ontario, the Ontario Science Centre and the Royal Botanical Gardens will all be permitted to establish Crown foundations.
- Universities, colleges, the Ontario Heritage Foundation, the Trillium Foundation, Science North and the McMichael Canadian Art Collection will continue to have the right to receive gifts to the Crown, as they do at present.

The actions announced in this Statement, coupled with the permanent savings from measures announced on July 21, will achieve total savings of approximately \$4.5 to \$5.5 billion in 1996-97. Specific actions will be decided on during this year's review of ministry spending estimates to fully achieve these savings.

The experience gained in Windsor demonstrates that casino development can create jobs and provide a significant boost to a local community.

The Government remains committed to holding a referendum in which the people of Ontario will decide on expansion of casino gambling in the province.

To this end, we will ask a committee of the Legislature to examine options for holding referenda in Ontario. The first opportunity to hold a referendum in conjunction with an existing province-wide vote would be the 1997 local government elections.

In the meantime, the Government will give Ontarians a further opportunity to evaluate casino development by allowing casino development in Niagara Falls. This initiative will test casino development in a world-renowned tourism destination that annually attracts more than 10 million visitors, most of whom come from outside Canada.

Niagara Falls is the only Ontario community where a referendum on the casino question has already been held, with 63 percent of area residents voting in favour of casino development within their municipality.

This new casino development is expected to create jobs in the Niagara Region and to generate \$375 million annually in provincial revenues.

With the Niagara Falls development in place, Ontarians will have information on the impact of casinos in three different communities by the time a referendum is held.

The Government remains committed to exploring the sale and privatization of government assets, where the private sector can manage these assets more efficiently to provide better service to the public. In keeping with this commitment, the Government will soon announce a process for privatization – ensuring that initiatives meet the strictest criteria for protecting the public interest, and adhering to rigorous conflict-of-interest guidelines.

## **Conclusion**

The plan I have outlined today is an essential part of the Government's program for renewing Ontario, restoring prosperity, and creating jobs.

It begins the task of freeing Ontarians from the burden of rising government interest costs.

It paves the way for an economy with less red tape and lower taxes – where businesses can invest to create new jobs.

It faces up to the challenge of renewing Ontario's public services – working with our major transfer partners to focus on the services that Ontarians value most and to deliver those services more efficiently.

## **Privatization**

**Renewing Ontario,  
restoring prosperity,  
creating jobs**

Most important, after a decade when Ontario has lost its way, the plan I am setting out today will put Ontario back on the road towards a more prosperous and secure society, for everyone.

It *is* possible to get Ontario growing and creating jobs again – if we have a plan and stick to it.

Moving towards that goal will involve many changes for Ontarians. Change can have a human cost – our Government understands that.

But we also understand the human costs of *not* changing. There is no easy solution. And there is no time to delay.

For all of us who care about the social fabric of Ontario, who want to see more jobs for Ontarians, and who seek a better future for our children, the state of the province's finances simply must be addressed.

Ontarians understand the need. They have the will. And they can be confident that, as we work together to carry out our plan, we are on our way to making Ontario once again a province of opportunity.



## Overview

There is only one real basis for restoring Ontario's fiscal health: people at work in productive jobs. And the only way to create those jobs is to reverse the damage of a decade of overspending and overtaxing. Ontario's spending has almost doubled in the past decade, and taxes have been hiked 65 times — creating a fiscal and economic environment that simply does not support job creation.

That is why the Government, since taking office in June, has moved quickly to correct Ontario's urgent fiscal problems. The measures outlined in the July Statement and in this document represent the first steps to cut spending and to get the growth of debt and interest costs under control. They provide clear evidence of the Government's determination to restore credibility and confidence in this province as a place to live, work and invest.

But there is much still to be done. This Government must address Ontario's problems on two fronts:

- it must cut spending to balance the budget, and
- it must cut the tax burden that is killing jobs and initiative.

If Ontario has learned anything from the last 10 years, it is that too much government spending weighs the economy down, by pushing up taxes and piling up debt.

What Ontario needs now is real and lasting change to a public sector that has grown too large, unbalanced and unfocused. Government in Ontario must be smaller, and — even more importantly — smaller government must work better.

This paper:

- describes the Province's current fiscal outlook;
- presents the Government's plan for dealing with its spending and deficit; and

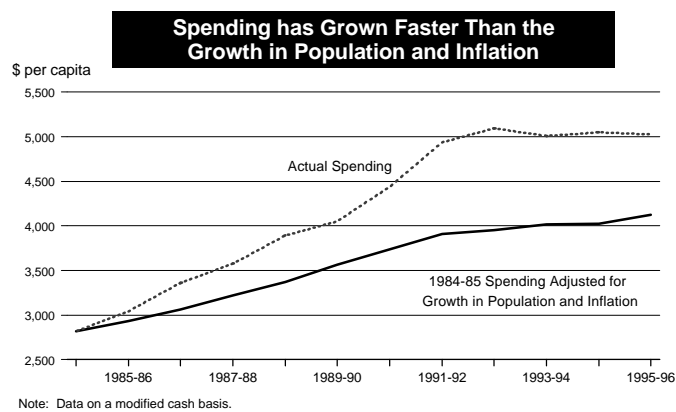
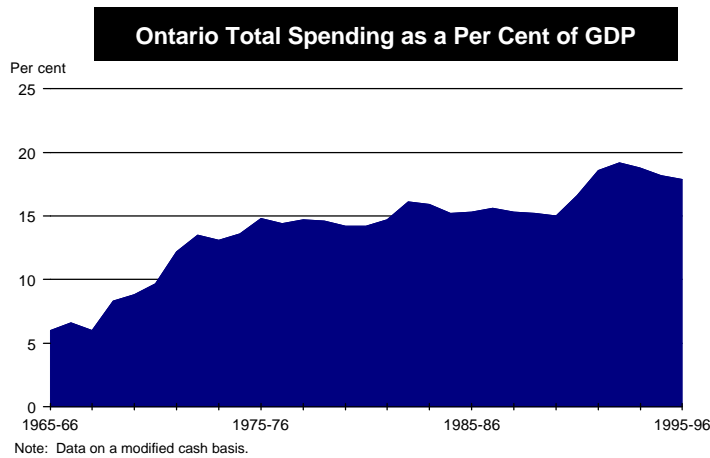


- outlines how other parts of the public sector, as well as the provincial government itself, must contribute to the solution.

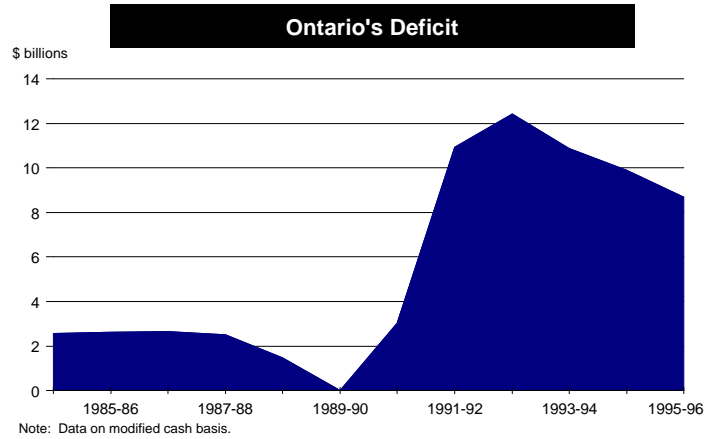
Beginning with today's Statement, the Province will follow the guidelines of the Public Sector Accounting and Auditing Board (PSAAB) for both planning and reporting purposes. However, as this Statement is a transition document, it has been necessary to show certain data, particularly historical data, on the former modified cash basis of accounting. Unless otherwise noted, the data in this document are on a PSAAB basis.

## Government has grown faster than Ontario's economy and population

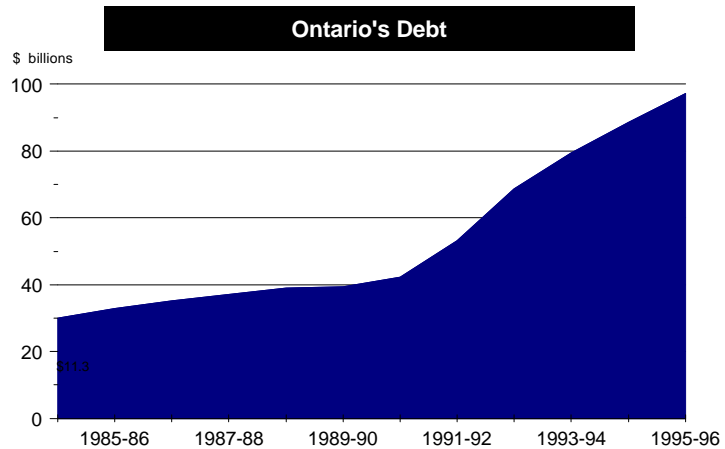
The growth of the public sector in Ontario has far outpaced the growth of Ontario's economy and population.



The result has been a series of deficits, when provincial revenues could not keep up with spending.



In the past decade, a doubling of provincial spending has been financed by both an increasing tax burden and — particularly in the past five years — by a \$64 billion increase in debt. Since 1990-91, Ontario's debt has more than doubled to \$97.2 billion.



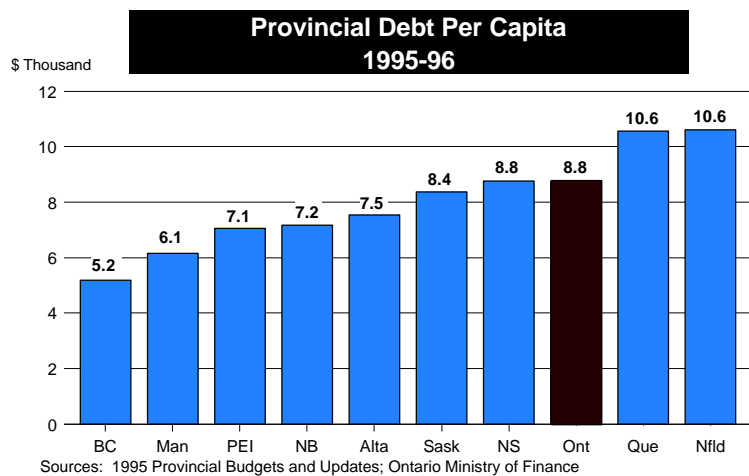
With increased debt have come increased interest costs. This year, about 19 cents of every dollar in revenue the Government collects will go to pay interest on the debt. Five years ago it was less than nine cents.

As long as there is a deficit, debt increases. When debt increases, public debt interest goes up as well. As a result of the deficit in 1995-96, this year the increase alone in public debt interest will be almost \$1 billion, more than the Province provides to its 25 colleges of applied arts and technology.

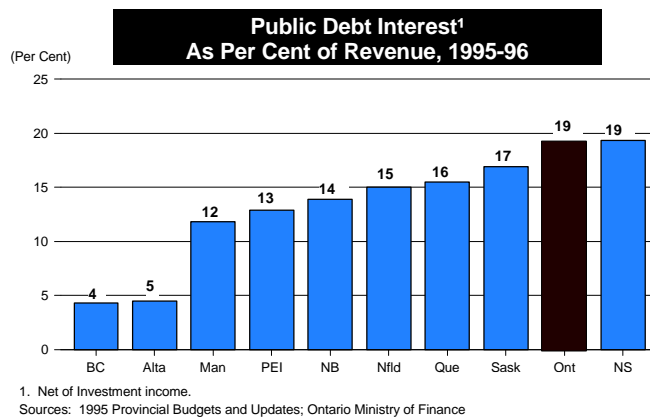
### Most other provinces have balanced budgets

Ontario's debt and interest costs are higher than those of most other provinces, even when Ontario's larger population is taken into account.

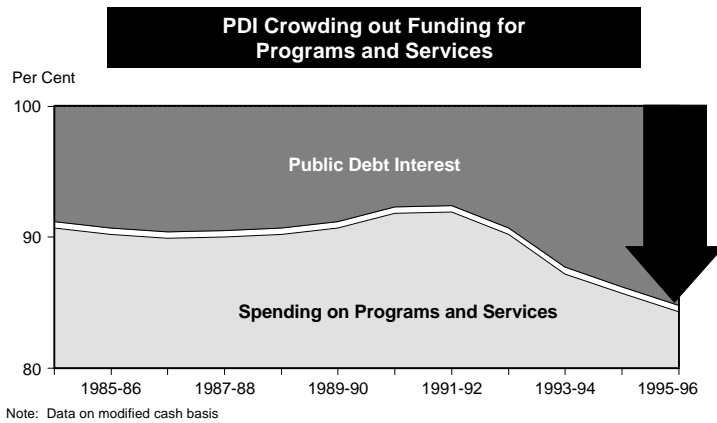
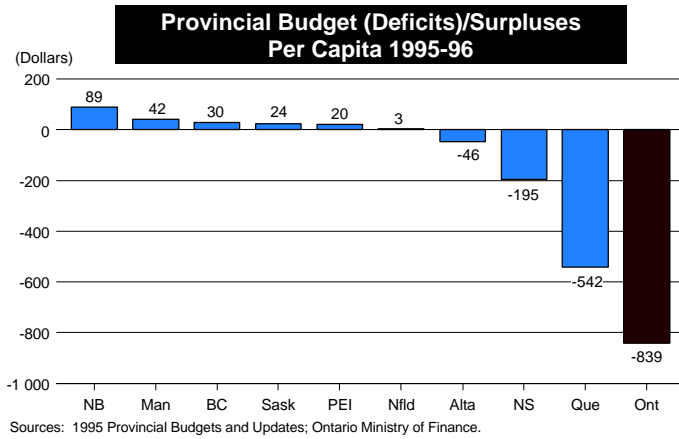
Ontario's debt, which is expected to reach \$97.2 billion by the end of 1995-96, works out to over \$8,750 for each Ontario resident, higher than all other provinces except Newfoundland and Quebec.



Looking at the share of each revenue dollar that goes to interest costs, Ontario — at 19 cents — is second only to Nova Scotia.



Clearly, the need to balance the budget, as six other provinces have, and reverse the growth of debt and interest costs is vital. Unless that happens, debt interest will continue to crowd out other spending, and Ontario's ability to provide services people need will be seriously threatened.



**Immediate action to cut the deficit by \$1.9 billion in 1995-96**

On taking office June 26 of this year, the Government found a fiscal situation that was far more serious than expected. Taking all cash flows, including capital spending, into account, the deficit was projected to reach \$10.6 billion by year-end. The Government acted immediately. A fiscal statement on July 21, 1995 outlined \$1.9 billion in spending cuts, to bring the deficit outlook to \$8.7 billion.

In addition, the Government appointed the Ontario Financial Review Commission (OFRC), asking it to make recommendations on how to end the confusion about Ontario's two "sets of books." The Government has accepted the OFRC's recommendation to use the guidelines set by the Public Sector Accounting and Auditing Board (PSAAB) for government financial reporting.

**Table 1**

**July Statement Deficit Outlook for 1995-96 (\$ Millions)**

	Potential Outlook as of June 26	Actions Taken	Outlook as of July 21
Cash Basis	10,595	1,884	8,711
PSAAB Basis	11,188	1,865	9,323

The following table outlines and updates the July figures first on a cash basis and then on the PSAAB basis. **On either accounting basis the deficit target remains on the track that was set in July – \$1.9 billion lower than the situation inherited on June 26.**

Table 2

**1995-96 Deficit Outlook of \$8.7 Billion Unchanged  
(Cash Basis)  
(\$ Millions)**

	July 21 Statement Outlook	In-year Changes	Current Plan
Revenue	47,086	0	47,086
Expenditure:			
Programs	43,265	323*	43,588
Capital	3,750	(318)*	3,432
Public Debt Interest	8,782	(20)	8,762
Total Expenditure	55,797	(15)	55,782
Deficit	8,711	(15)	8,696

\* Includes \$318 million in capital spending that has been re-classified as operating spending.

Table 3

**1995-96 Deficit Outlook of \$9.3 Billion Unchanged  
(PSAAB Basis)  
(\$ Millions)**

	July 21 Statement Outlook	In-year Changes	Current Plan
Revenue	46,786	0	46,786
Expense:			
Programs	43,390	323*	43,713
Capital	3,730	(318)*	3,412
Public Debt Interest	8,989	(20)	8,969
Total Expense	56,109	(15)	56,094
Deficit	9,323	(15)	9,308

\* Includes \$318 million in capital spending that has been re-classified as operating spending.

The appendix to this paper outlines details of the change in reporting practices.

The adoption of Public Sector Accounting and Auditing Board guidelines will also require recognizing a number of one-time charges in 1995-96, including provisions for loan losses from the Ontario Student Assistance Program and the Ontario Development Corporations, and the write-off of non-profit housing cancellation costs and employee severance costs. Once the precise amounts of these charges are determined later this fiscal year, these charges will be taken into account and reported in the 1996 Budget.



The Province of Ontario expects to receive about \$350 million from the federal government this year as final settlement of its 1992-93 fiscal stabilization claim. No provision has been made in the 1995-96 fiscal plan for receipt of these funds, since official confirmation has not yet been received from the federal government. If the outstanding fiscal stabilization revenues are realized, these could be used to offset a portion of the costs of these one-time charges.

### Progress toward lower deficit target

For 1995-96, the deficit outlook remains on track with the July Statement. Revenues are unchanged. The Government has made steady progress towards ensuring it will meet the new spending target.

<b>Details of 1995-96 Spending Changes Since July 21 Statement (\$ Millions)</b>	
Spending Increases	
Extra Fire Fighting	44
Ontario Student Assistance Program - greater number of students qualifying for loans and increase in loan defaults	35
<b>Total Spending Increases</b>	<b>79</b>
Spending Savings	
Overachievement of July Operating Reduction Target	(98)
General Legislative Grants - recovery	(24)
Trillium Drug Program - Slower program uptake	(20)
Revised estimate of savings from measures to reduce social assistance fraud	(11)
Board of Internal Economy revised forecast	(11)
Cancellation of Photo Radar	(10)
Public Debt Interest	(20)
<b>Total Savings</b>	<b>(194)</b>
Progress Toward Meeting In-year Savings Target	100
<b>Net Spending Change</b>	<b>(15)</b>

Savings of \$194 million have been found to offset \$79 million in identified spending pressures. In addition, \$100 million of these savings have been applied towards the original July Statement year-end savings target of \$200 million. With these savings, fully one-half of the year-end operating savings target has already been found.

The hot, dry summer contributed to an increase in the cost of forest fire fighting in Northern Ontario. Since the July Statement, \$44 million has been provided to the Ministry of Natural Resources to combat these fires. The total cost of fire fighting in 1995-96 is estimated to be \$104 million.

The Ontario Student Assistance Program required an additional \$35 million resulting primarily from a larger number of students qualifying for loans in recent years and from increases in loan defaults.

These identified pressures were fully offset through savings.

The largest source of savings is from the \$500 million operating spending reduction target announced in the July Statement. Through a stringent review of spending, ministries were able to identify \$598 million in program savings, exceeding the July target by \$98 million.

As a result of Social Contract negotiations, \$24 million has been recovered from the education sector.

Savings of \$20 million are expected as a result of slower-than-anticipated enrolment in the new Trillium Drug Program.

Further refinements in the estimate of savings from measures to reduce social assistance fraud and changes to eligibility have resulted in an increase of \$11 million in estimated savings beyond the \$15 million expected in the July Statement.

Spending by the Board of Internal Economy offices will be about \$11 million lower than anticipated in the July 21 outlook. The base allocations for the four offices — Assembly, Chief Election Officer, Ombudsman and Provincial Auditor — total about \$140 million, while statutory expenses under the Election Act are about \$45 million.

Cancellation of the Photo Radar pilot project will save a further \$10 million in expenses this year.

Lower interest rates will contribute to an estimated \$20 million in public debt interest savings this year.

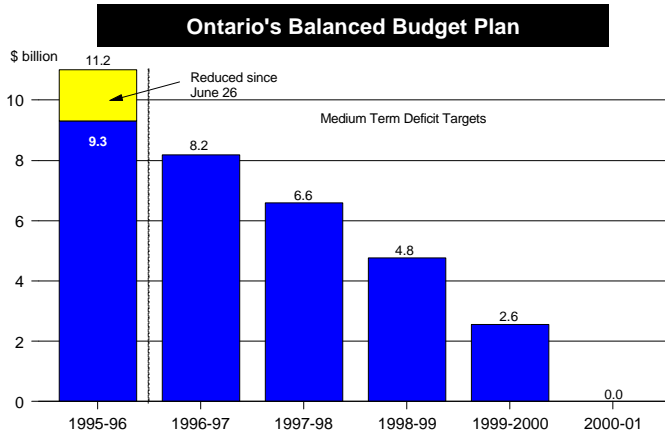
## Ontario's Balanced Budget Plan

A realistic plan to reduce the deficit and balance the budget is an important element in creating jobs for Ontarians. Getting the deficit under control will attract new businesses and investment, which in turn will create more jobs.

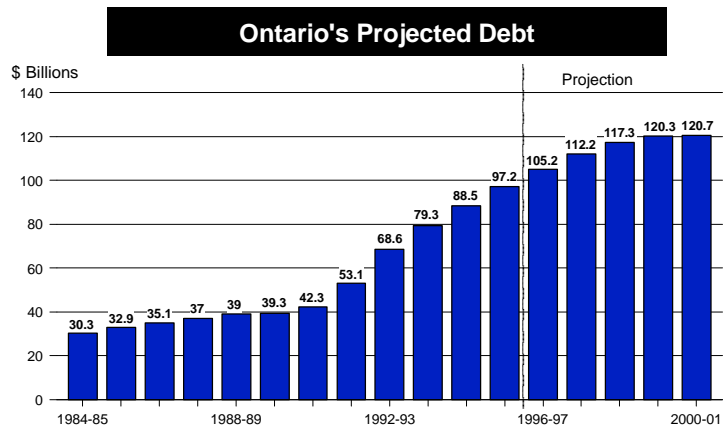
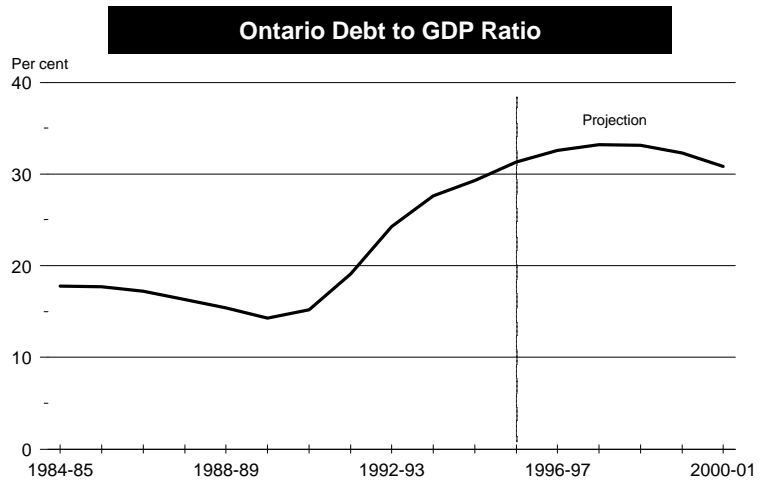
The Government is committed to meeting the medium term deficit targets outlined in the *Common Sense Revolution*, culminating in a balanced budget by the year 2000-01, by reducing government spending.

Deficits and debt are the two most important fiscal indicators to get under control - which is why this five-year plan focuses on these two indicators.

By 1996-97, the Government will have reduced the deficit to \$8.2 billion, a \$3 billion reduction from the \$11.2 billion potential deficit inherited upon assuming office.



Meeting the Balanced Budget Plan deficit targets will reverse the growth in debt in relation to the size of the economy.



The Balanced Budget Plan will curtail the significant growth in debt experienced over the past decade. This increase in debt includes the annual deficit and the net change to loans, investments and reserves.

## **Cutting government overspending**

The Government is committed to stopping overspending. Major reforms are being put in place to lead to a smaller, more efficient public sector that provides only those services of real value to taxpayers, and at the lowest possible cost. As the Government asks partners to do more with less, it must and will make significant changes to its own operations.

Despite initial progress in reducing spending, much remains to be done. To support the fiscal framework for the next two years and to meet its balanced budget targets, the Government will:

- Reduce spending on offices reporting to the Legislature
- Reduce government administration costs and improve efficiency
- Restructure operations to reduce costs
- Cut handouts to business
- Reduce funding for agencies, boards and commissions
- Cut government grants

The staffing impact of these further actions will not be finalized until the completion of the budget-setting process.

## **Reducing funding to the Legislature**

As a starting point, the Government will ask the Legislature to approve spending reductions of at least 20 per cent in 1996-97. Savings will be \$27 million annually, drawn from all offices and agencies that report to the Legislature.

## Reducing government administration costs

The private sector has successfully demonstrated the capacity for major savings in office and program administration. Building on this, the Management Board of Cabinet is leading a thorough review of all administrative practices within the Government. Expected savings are estimated at \$300 million over two years, equal to about 33 per cent of current administrative costs.

These savings will be achieved by:

- Eliminating services that are not required to support the Government's core activities.
- Eliminating waste and duplication.
- Pursuing partnerships between ministries and with the private sector and opening internal services to market forces and outside competition.
- Consolidating and standardizing internal services and systems, such as information technology and financial data systems.
- Measuring performance against private-sector benchmarks to secure further cost reductions.

The Chair of Management Board will provide further details on the savings being achieved from internal administration in the spring.

## **Restructuring government operations**

The Government also recognizes the need to deliver programs much more efficiently. It has therefore set a target to reduce spending on its own programs by one-third, on average, to save \$1.1 billion by the end of 1997-98.

Savings will come both from eliminating selected programs and streamlining operations. For example:

- Overhead costs in the Ministry of Economic Development, Trade and Tourism will be cut by \$10 million annually as business assistance programs are terminated.
- A significant reduction in workload in land registry offices -- due to both lower real estate activity and to self-service initiatives -- will achieve savings of \$4 million annually by 1997-98 and a reduction of 100 positions.

## **Cutting handouts to business**

In keeping with its commitments, the Government will cut funding for programs providing grants, loans or guarantees to business by \$230 million in 1996-97.

- \$45 million will be saved in 1996-97 from the termination, announced in July, of the Sector Partnership Fund, Jobs Ontario Training and Jumpstart.
- The elimination and cutting of direct business assistance programs will provide savings of \$115 million in 1996-97. Over 30 programs across six ministries will be ended. Some phasing out will be required to honour existing commitments.



- The phasedown of business assistance loan programs, including the Ontario Development Corporations' lending program, will save \$70 million in loans in 1996-97, reducing the Province's borrowing requirements by an equivalent amount.

Ontario will compete on the basis of a positive business climate, with competitive taxes, responsible fiscal management, and fewer barriers to investment and growth.

### **Reducing funding for agencies, boards and commissions**

The Government of Ontario supports over 200 agencies, boards and commissions. Over the years, many have expanded to deliver services that are now either inappropriate or too costly. Others have simply outlived their mandates.

The Throne Speech noted that the Government would put all public agencies, boards and commissions to a test — those agencies not seen to provide value for tax dollars or whose mandates are obsolete would be eliminated. A government committee headed by the Parliamentary Assistant to the Chair of Management Board and reporting to the Board will undertake a detailed review of agencies, boards and commissions and report progress.

The Government has set a target for reducing spending on agencies, boards and commissions by a total of 28 per cent over the next two years to generate savings of nearly \$220 million. The following examples have been identified to date.

- The operating subsidy for the Ontario Northland Transportation Commission will be reduced by \$6 million in 1996-97 and by an additional \$4 million in 1997-98.
- Funding to the Ontario Arts Council will be reduced from current levels by 19 per cent in 1996-97.

- Support to the Ontario Science Centre, Science North, Royal Ontario Museum, the Art Gallery of Ontario, the McMichael Canadian Collection and the Royal Botanical Gardens will be reduced from current levels by an average of seven per cent next year.
- Support for CJRT-FM, the provincially funded radio station, will be eliminated next year, saving over \$1 million.
- Funding for the Ontario Energy Board, the Niagara Escarpment Commission, the Environmental Appeal Board and the Environmental Compensation Corporation will be reduced by an average of 15 per cent next year, saving over \$1 million.

As a further measure of its determination to streamline in this area, the Government has already eliminated eight advisory agencies.

### **Cutting government grants**

Ontario provides grants to a myriad of organizations across the province, sometimes with limited accountability or unclear objectives. These grants can become handouts, subsidizing inefficient institutions, providing unfair competition to the private sector, and reducing the use of other potential revenue sources.

The Government will undertake a rigorous review of all government grants with the objective of lowering spending by \$1.4 billion, or 28 per cent, by the end of 1997-98. Examples include:

- The Jobs Ontario Community Action program will be terminated, saving \$82 million next year and \$88 million in 1997-98. The Provincial Auditor criticized this program extensively in his recent report. This program was badly designed, objectives were unclear, and oversight and cost control requirements were inadequate. Existing legal commitments under the program will be honoured.

- An array of environmental and energy grants will be eliminated. This measure will save \$24 million next year.
- Capital subsidies for GO Transit will be reduced by \$20 million annually.
- Grants to municipal airports will be lowered by \$4 million next year and an additional \$5 million in 1997-98.
- Grants provided by the Ministry of Citizenship, Culture and Recreation to cultural organizations, including arts and heritage groups, local festivals, library agencies, and funding for community information centres, will be reduced or eliminated to effect an average savings of 18 per cent from current levels or \$5 million next year.
- Grants for sports and recreation groups and associations will be reduced by an average of 15 per cent from current levels, saving \$3 million annually effective 1996-97.

### **A new relationship with transfer partners**

Almost 70 per cent of the Government's total spending is transferred to agencies and individuals outside of Government, including its major transfer partners – municipalities, universities, colleges, schools and hospitals – as well as many smaller agencies.

The Government recognizes that its major transfer partners have made progress in controlling spending and operating more efficiently. For example, universities, colleges and hospitals have instituted many measures of efficiency to date.

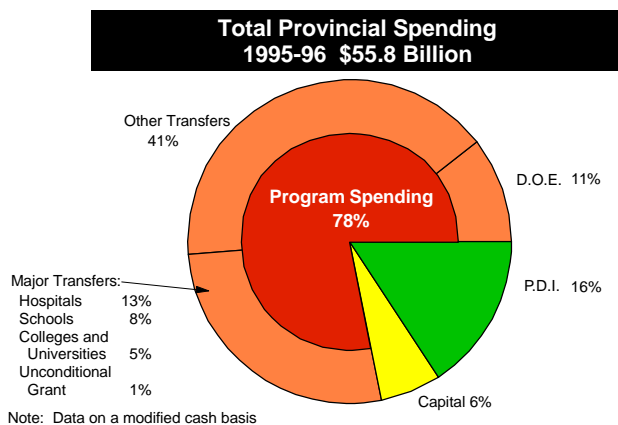
However, more can and must be done if Ontario is to meet its fiscal targets. Transfer recipients will need to identify and focus on their core businesses. They will need to function more efficiently with fewer resources. To do this they will require more freedom in the administration of funding they receive, and additional measures to permit them to achieve their goals.

The Government has introduced legislation to permit greater flexibility in the delivery of many services in these organizations. The Government has already taken action by repealing Bill 40, repealing job quotas, and freezing average Ontario Hydro rates for five years.

In addition, the Government will support efforts by its transfer recipients to reduce costs, by providing tools and greater flexibility, so that they can focus on priority services, restructure, and develop new sources of revenue.

For transfer partners to plan effectively, they must know as early as possible the funding they can expect. That is why the Government is announcing its plans for major transfers in this Statement – four months before the start of the Government's fiscal year.

The expenditure reductions announced today are an important step in the Government's Balanced Budget Plan and will help ensure the achievement of the 1996-97 deficit target of \$8.2 billion.



## Grants to Municipalities: Ontario Municipal Support Program

The Province is creating a new block grant for a portion of its transfer payments to municipalities, called the Ontario Municipal Support Program (MSP). Municipalities will have the flexibility to spend this grant according to their priorities. Certain basic conditions necessary to the prudent management of public funds will apply.

The Ontario Municipal Support Program will initially incorporate three existing programs: Municipal Roads, Unconditional Grants and Grants for Community Transportation Assistance. Additional programs will be considered for inclusion at a later date.

Funding under the MSP will total \$1.0 billion in 1996-97 and \$0.7 billion in 1997-98. The MSP is an unconditional block funding program. In this transition period, approximately 10 per cent will be dedicated to specific existing commitments. The distribution of the block grant will be designed to make spending reductions fair for municipalities.

Table 5

Ontario Municipal Support Program  
(\$Millions)

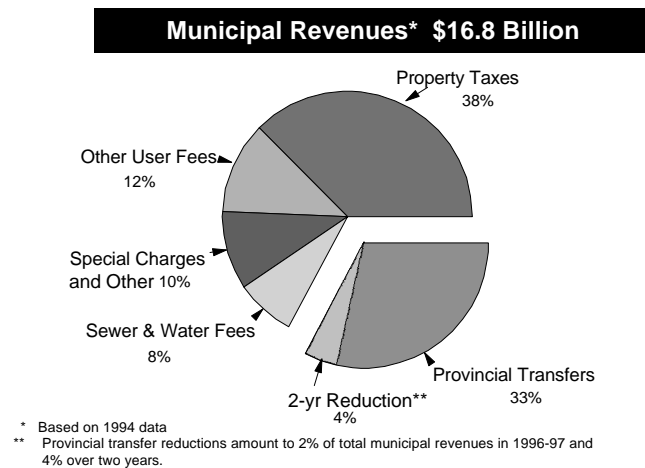
	Amount of Provincial Transfer Adjusted		
	1995-96	1996-97	1997-98
Municipal Roads	665.7	} 997.4	735.9
Unconditional Grants*	617.1		
Community Transportation Assistance	4.8		

\*Unconditional grants base adjusted to reflect a one-time deferred social contract reduction of \$49.8M in 1996-97 which is restored in 1997-98

## Other municipal transfers

Municipal Recycling Support will be phased out over the next two years as previous commitments are fulfilled. Per-household grants of \$30 million to municipal public libraries will be reduced by \$6 million in 1996-97 and an additional \$6 million in 1997-98.

Grants to Conservation Authorities will be reduced over the next two years. The Ministry of Natural Resources will maintain \$10 million for flood control and property taxes on provincially significant conservation lands.



These measures, along with reductions under the MSP, will reduce funding to municipalities by \$323 million in 1996-97 and \$335 million in 1997-98. This reduction represents on average a four per cent decline in total municipal revenue over the two years.

In addition, operating subsidies for municipal transit will be reduced from \$242 million this year to \$218 million next year and \$194 million in 1997-98. Funding to municipalities for specialized transit services for people with disabilities will be maintained at current levels. Other municipal transfer announcements will be made at a later date.

## Tools for restructuring

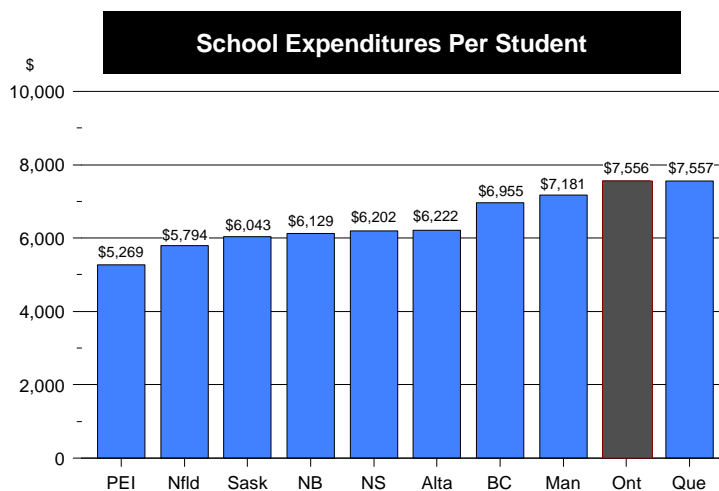
Municipalities will also be provided with other tools that will help them manage the reductions, enhance their ability to raise revenues and make it easier for them to restructure. In addition, the Government will provide short-term assistance to municipalities in financial difficulty as a result of these actions.

Details on the Municipal Support Program, including each municipality's allocation, and on the tools to help municipalities, will be announced by the Minister of Municipal Affairs and Housing.

## Higher quality, more accountability for schools

The Government is committed to protecting the quality of classroom-based education, a goal that can be met while reducing the overall cost of the education system.

Ontario spends 10 per cent more per student than the average of the other nine provinces.



Since 1985, operating expenditures in the Ontario education system have grown by 82 per cent, far outstripping school enrolment growth of 16.5 per cent. Taking into account differences in the number

of pupils, the Ontario school system is spending \$1.3 billion more than the average of all the other provinces. There is a need to get this overspending under control in order to guarantee a prosperous future for students. We must continue to reduce non-classroom costs, which account for at least 30 per cent of education spending, and to develop necessary tools to achieve the savings. For example, as announced in the Throne Speech, legislation will be introduced to make junior kindergarten a local option.

The Ministry of Education and Training will be working with school boards, teachers and parents to improve quality and accountability in education. Measures which the Government has recently taken include the creation of the College of Teachers, development of a new four year secondary schools system, and the creation of the Education Quality and Accountability Office.

In 1996-97, transfers to school boards will be \$4,044 million, a reduction of \$400 million. This represents three per cent of the total cost of Ontario's school system, which is \$13.8 billion.

In the coming months, the Government will be reviewing reports from the GTA Task Force, the School Board Reduction Task Force, and Education Finance Reform Working Group with a view towards bringing further improvements.

### **Post-secondary education: Key to competitive edge**

In 1996-97, transfers to universities will be \$1,549 million, a reduction of \$280 million. Transfers to colleges will be \$689 million, a reduction of \$120 million. The total reduction in provincial funding for post-secondary education is \$400 million – equivalent to a reduction of seven per cent of total expenditures on post-secondary education in Ontario.

Tuition fees for colleges will increase by 15 per cent and universities will be able to increase tuition fees by 10 per cent.



University tuition will be further deregulated by allowing universities the discretion to increase fees by an additional 10 per cent. Institutions will be required to set aside 10 per cent of any new revenues from tuition increases for local student aid.

The Ministry of Education and Training will work with both colleges and universities to deregulate foreign fees as quickly as possible.

As promised in the *Common Sense Revolution*, the Government is now pursuing a review of the current student assistance program. Ontario will approach the federal government to seek their assistance to develop a student aid plan in which repayments are sensitive to income after graduation.

In terms of the future, the Minister of Education and Training will release a discussion paper in the new year. The paper will address issues such as student and provincial shares of post-secondary funding, including differentiation of fees for professional and graduate programs, accessibility, program rationalization within each sector and cooperation between the college and university sectors. A four- to six-month consultation process will be undertaken, following which advice will be provided to government. This will assist in providing a new framework to guide government policy on post-secondary education. The Minister of Education and Training will provide further details on this shortly.

## Focus health-care dollars on direct care

The Government is committed to maintaining health care spending while aggressively eliminating waste, duplication, and inefficient practices. Health-care dollars will focus on direct care for those in need and on preventative care.

Hospitals in Ontario are making strides towards greater efficiency. However, there are opportunities to achieve further clinical and management efficiencies by restructuring in this sector.

In order to address Ontario's health care needs in the future, the hospital system needs to operate as an integral part of the overall health system. It must focus on the needs of the community by treating those in need of the most complex, acute, chronic or rehabilitative care.

The Health Services Restructuring Commission will be established to facilitate the restructuring of the hospital system. Where needed, the Government will also provide legislative and policy tools to help the process.

Transfers to hospitals total \$7.3 billion in 1995-96. They will be reduced by \$365 million in 1996-97, by an additional \$435 million in 1997-98, and a further \$507 million in 1998-99. These reductions represent approximately four per cent of total hospital revenues in 1996-97, five per cent in 1997-98, and six per cent in 1998-99.

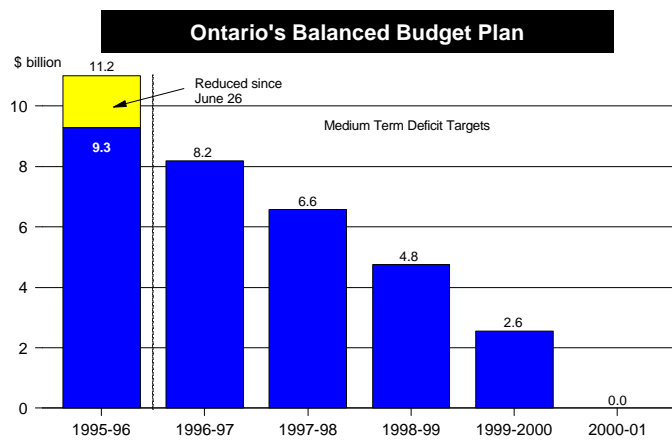
Savings will be reinvested in priority-care areas across the province, such as cardiac services, dialysis treatment, acquired brain injuries, public-health immunization programs, and in the development of integrated health information systems.

The Minister of Health will provide more details on the Health Services Restructuring Commission, on other tools that will facilitate restructuring, and on allocations for individual hospitals.

## Groundwork in place for balanced budget

With these measures, the Government has taken quick action to lay the groundwork for a realistic and achievable financial plan for balancing the budget.

By restoring the fiscal health of Ontario, the Government is contributing to a sound fiscal and economic climate that encourages private-sector job creation and enables the lowering of taxes to ensure a brighter future for all Ontarians.



## **Appendix Financial Planning and the Public Sector Accounting and Auditing Board Guidelines**

### **OFRC Recommendations**

The Ontario Financial Review Commission (OFRC), set up in July, was asked to review the financial reporting practices in the Budget, Public Accounts, and the annual Estimates.

Among the Commission's recommendations was that the Province adopt the financial reporting guidelines of the Public Sector Accounting and Auditing Board (PSAAB) in the Budget and the annual Estimates. These guidelines are currently being followed for reporting purposes in the Public Accounts.

Under PSAAB guidelines, governments report on a modified accrual basis of accounting. Revenue and expense are included in the Budget in the year in which the Province becomes entitled to the revenue or incurs expenses, rather than when payments are received or paid out. PSAAB guidelines also require consolidation of the activities of government agencies, net of transactions between the Government and these agencies.

Beginning with today's Statement, the Province will follow the guidelines of the Public Sector Accounting and Auditing Board for both planning and reporting purposes. Having budgets and financial statements on the same accounting basis will make it easier to compare plans outlined in the Budget with actual results. This Fiscal and Economic Statement provides a full reconciliation between the modified cash basis of accounting and the modified accrual basis of accounting.

This move will also improve confidence in provincial financial reporting by eliminating confusion that results when the Budget is presented in a way that is different from the Public Accounts, and by using standards set by an outside group of experts for both planning and reporting purposes.

Following the PSAAB guidelines specifically impacts the deficit target in several ways:

- All spending on capital assets is expensed in the year they are bought or built, or when the capital funding is provided to recipients. The July Statement and today's document reflect this treatment.
- The cost of severance as a result of staff reductions is to be accrued and expensed at the time the restructuring decision is made and costs can be identified. Since these decisions will be made over the next few months, the costs will be identified and incorporated at the time of the 1996 Budget.
- A number of one-time charges will need to be recognized in 1995-96, such as the write-off of non-profit housing projects. The precise amount of these adjustments is not yet known, but should be available later this year.

Another important OFRC recommendation is that the Province adopt a prudent planning framework that uses cautious forecasting to ensure that deficit targets will be met. This Statement incorporates that recommendation.

Other recommendations of the Commission which have been accepted by the Government are:

- That the Government set out three-year deficit targets and provide a longer-term view of its targets for deficit and debt reduction. In fact, this Statement includes five-year targets to reduce the deficit and control the debt.
- That the Budget include a contingency fund to cushion against unforeseen economic changes.

## Reconciliation to PSAAB

### 1995-96 Fiscal Plan: Reconciliation to PSAAB (\$ Millions)

	Cash Basis Current Plan	Move to PSAAB Reporting	PSAAB Basis Current Plan
Revenue	47,086	(300)	46,786
Expenditure:			
Programs	43,588	125	43,713
Capital	3,432	(20)	3,412
Public Debt Interest	8,762	207	8,969
Total Expenditure	55,782	312	56,094
Deficit	8,696	612	9,308

Adopting the PSAAB reporting basis results in a restatement of the 1995-96 deficit outlook to \$9.3 billion. Either way, the current deficit outlook for 1995-96 remains on track with the July outlook.

### Details of PSAAB Adjustments (\$ Millions)

#### Revenue :

PSAAB Consolidation Adjustments	(300)
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#### Expense :

PSAAB Consolidation Adjustments	(300)
PSAAB Accrual Adjustments	
Pensions	150
Other Program Spending	85
Capital	(20)
Public Debt Interest	207
Provision for Doubtful Accounts	190
Total Expense Adjustments	312

<b>Net PSAAB Adjustments/ Deficit Impact</b>	<b>612</b>
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## Details of PSAAB Revenue and Expense Adjustments

The accounting adjustments resulting from the move to PSAAB reporting have reduced the modified cash basis revenue outlook by \$300 million and added \$312 million to the modified cash basis expenditure outlook for 1995-96.

The revenue consolidation adjustment of \$300 million records the net income and losses of enterprises, such as the Casino Corporation and the Ontario Housing Corporation, and the revenues of organizations, such as the Crop Insurance Commission. It also removes revenues remitted by these enterprises to the Consolidated Revenue Fund (CRF) since these revenues are already incorporated in their net income.

The expense consolidation adjustment of \$300 million removes transfer payments to enterprises and records the expenses of organizations, net of adjustments for expenses already recorded in the CRF.

The pensions accrual adjustment of \$150 million represents the difference between the cost of pension benefits earned in the period and the amount contributed to pension funds during the period.

Other program spending accruals of \$85 million reflect amounts owing at year-end, but not yet paid for materials, supplies, transfer payments, net of opening accruals.

The negative adjustment for capital transfer payments accruals of \$20 million reflects the fact that the amounts owing but not yet paid at year-end are projected to be less than the corresponding amounts at the end of last year.

Public debt interest accruals of \$207 million arise from interest incurred on outstanding debt not yet paid, net of opening accruals. These public debt interest accruals arise, for example, when interest costs incurred in one fiscal year are not due and paid until the next fiscal year.

The provision for doubtful accounts has been increased to \$190 million to reflect the more prudent PSAAB guidelines. This increase does not reflect a change in the actual status of these accounts.



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**Statement of Financial Transactions**  
**(PSAAB Basis)****TABLE A****(\$Millions)**

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	<b>Actual 1994-95</b>	<b>Plan 1995-96</b>
<b>Revenue</b>	46,039	46,786
<b>Expense</b>		
Programs	44,331	43,713
Capital	3,831	3,412
Public Debt Interest	8,006	8,969
Total	56,168	56,094
<b>Deficit</b>	<b>10,129</b>	<b>9,308</b>
<b>Financing:</b>		
Debt Issues - Net	8,997	8,712
POSO & Other Liabilities	144	0
Net Financing	9,141	8,712
Net Loan Repayments (Issues)	75	(16)
Decrease in Cash	490	0
Net Change in Receivables & Payables	423	612
<b>Increase in Accumulated Deficit</b>	<b>10,129</b>	<b>9,308</b>

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**REVENUE  
(PSAAB Basis)****TABLE B****(\$Millions)**

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	<b>Actual 1994-95</b>	<b>Plan 1995-96</b>
<b>Taxation</b>		
Personal Income Tax	14,758	15,450
Retail Sales Tax	9,090	9,355
Corporations Tax	4,557	4,590
Employer Health Tax	2,640	2,620
Gasoline Tax	1,939	1,970
Fuel Tax	495	510
Land Transfer Tax	372	360
Tobacco Tax	322	330
Other Taxation	286	247
	<hr/>	<hr/>
	34,459	35,432
<b>Government of Canada</b>		
Established Programs Financing	4,059	3,910
Canada Assistance Plan	2,577	2,507
Fiscal Stabilization	184	0
Young Offenders Act	82	63
National Training Act	75	59
Bilingualism Development	65	58
Vocational Rehabilitation	61	62
Other	504	643
	<hr/>	<hr/>
	7,607	7,302
<b>Income from Investment in Government Enterprises *</b>	1,068	1,200
<b>Other Revenue</b>		
Vehicle/Driver Registration Fees	751	745
Other Fees and Licences	686	662
Liquor Licence Board of Ontario Revenues	532	535
Royalties	223	236
Fines and Penalties	163	141
Sales and Rentals	98	85
Miscellaneous	452	448
	<hr/>	<hr/>
	2,905	2,852
<b>Total Revenue</b>	<hr/> <b>46,039</b>	<hr/> <b>46,786</b>

\* Includes the projected net income/(loss) of government enterprises before transfers to/from the Province:  
- Lottery Corp. \$625M Liquor Control Board \$670M, Casino Corp. \$400M, Other \$(495M).

**OPERATING EXPENSE**  
**(PSAAB Basis)**  
**(\$Millions)**

**TABLE C**

<b>Ministry</b>	<b>Actual 1994-95</b>	<b>Plan 1995-96</b>
Agriculture, Food and Rural Affairs	409	446
Attorney General	793	751
Board of Internal Economy	135	185
Citizenship, Culture, and Recreation	361	403
Community and Social Services	9,364	9,027
Consumer and Commercial Relations	150	148
Economic Development, Trade & Tourism	510	324
Education and Training	8,145	8,113
Teachers' Pension	643	640
Environment and Energy	272	257
Executive Offices	10	12
Finance	930	439
Contingency Fund	-	170
Public Debt Interest	8,006	8,969
Health	17,599	17,774
Intergovernmental Affairs	6	5
Labour	135	144
Management Board Secretariat	337	281
Public Service/OPSEU Pension	738	412
Municipal Affairs and Housing	1,487	1,678
Native Affairs Secretariat	16	19
Natural Resources	478	541
Northern Development and Mines	54	64
Office of Francophone Affairs	3	3
Office Responsible for Women's Issues	22	21
Solicitor General and Correctional Services	1,136	1,146
Transportation	598	810
Year-end Savings	-	(100)
<b>Total Operating Expense</b>	<b>52,337</b>	<b>52,682</b>

**CAPITAL EXPENSE  
(PSAAB Basis)  
(\$Millions)**

**TABLE D**

<b>Ministry</b>	<b>Actual 1994-95</b>	<b>Plan 1995-96</b>
Agriculture, Food and Rural Affairs	12	7
Attorney General	4	0
Citizenship, Culture and Recreation	51	26
Community and Social Services	72	48
Economic Development, Trade & Tourism	108	55
Education and Training	421	443
Environment and Energy	271	248
Finance	3	-
Contingency Fund	-	30
Canada-Ontario Infrastructure Works	-	168
Health	249	181
Management Board Secretariat	260	310
Municipal Affairs and Housing	310	340
Native Affairs Secretariat	17	18
Natural Resources	54	45
Northern Development and Mines	240	199
Solicitor General and Correctional Services	2	3
Transportation	1,757	1,394
Year-end Savings	-	(103)
<b>Total Capital Expense</b>	<b>3,831</b>	<b>3,412</b>

## **CLEAN-UP OF TAX LEGISLATION ANNOUNCED BY THE FORMER GOVERNMENT**

Legislative amendments will be made to various Ontario tax statutes to carry out the following measures announced by the former government.

### **1994 Budget Measure to Implement the Ontario Innovation Tax Credit (OITC)**

- In the 1994 Ontario Budget, the former government announced a measure to provide a 10 per cent refundable tax credit for R&D performed in Ontario by small and medium-sized Canadian-controlled private corporations, effective January 1, 1995. To reduce compliance and administrative costs, the OITC closely parallels the federal R&D credit.
- Legislative changes will be made to the **Corporations Tax Act** to implement the OITC measure.

### **1993 Budget Measure to Level the Playing Field Between Uninsured Benefit Arrangements and Insurance Policies**

- In the 1993 Ontario Budget, the former government announced a measure to subject uninsured benefit arrangements (UBAs) to a two per cent insurance premiums tax under the **Corporations Tax Act**. The measure applies to amounts paid in respect of UBAs after June 1993.
- The purpose of this measure is to ensure that UBAs are subject to the same level of insurance premium taxation under the **Corporations Tax Act** as insurance policies entered into with insurance companies.
- Legislative amendments will be made to the **Corporations Tax Act** to implement this measure.

### **1994 Budget Measure to Adopt the Federal Tax Treatment of Mining Reclamation Trusts**

- In the 1994 Ontario Budget, the former government announced that Ontario would parallel the 1994 Federal Budget measure dealing with the tax treatment of mining reclamation trusts. The amendments apply to taxation years ending after February 22, 1994.
- To adopt this measure, legislative amendments will be made to the **Corporations Tax Act** and the **Income Tax Act**.

## Measure to eliminate double clawback of Small Business Deduction

- In its 1994 Budget, the federal government implemented a clawback to the federal small business deduction, based on the size of the company. Since Ontario has its own small business deduction clawback based on profitability, Ontario corporations would be subject to a double clawback due to the **Corporations Tax Act** automatic tie-in provisions to the **Income Tax Act** (Canada).
- The former government decided to maintain the Ontario clawback, based on profitability and eliminate the tie-in to the federal clawback, based on size. Legislative changes to the **Corporations Tax Act** will be made to adopt this commitment, effective for taxation years ending after June 30, 1994.

## Measure to Exempt Deposit Insurance Corporations from Corporate Minimum Tax

- The former government notified Ontario deposit insurance corporations that they would be exempt from the Ontario corporate minimum tax. A legislative amendment to the **Corporations Tax Act** will be made to carry out this decision. This measure applies to taxation years commencing after December 31, 1993.

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## Outstanding Tax Legislation Announced by Former Government Revenue Changes (\$ Millions)

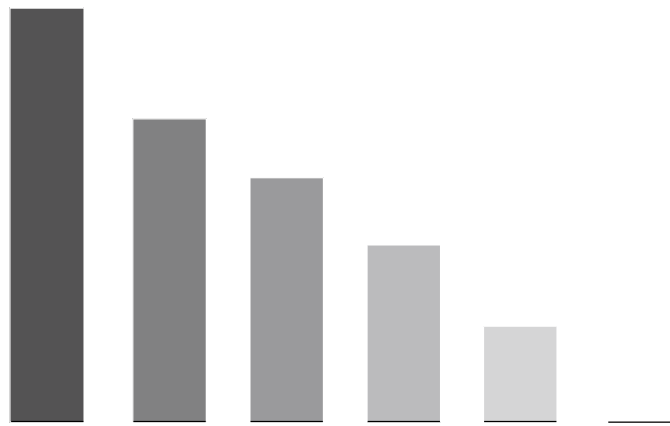
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	Fiscal 1995-96	Full-Year
Ontario Innovation Tax Credit	(35)	(35)
Uninsured Benefit Arrangements <sup>1</sup>	25	25
Mining Reclamation Trust Funds	0	(1)
Not Paralleling Federal Small Business Clawback	(5)	(5)
Exempt Deposit Insurance Corporations from CMT	-	-
<b>Total</b>	<b>(15)</b>	<b>(16)</b>

1. Net of income tax effects.



## Ontario's Fiscal Outlook





## OVERVIEW

The period from 1990 to 1995 marked the most serious setback since the end of the Second World War for an economy whose growth had been strong and certain. The Ontario economy — which had expanded by an average of 4.5 per cent a year over the previous 40 years — slipped in and out of recession, and still remains below the employment peak set in February 1990.

The problem did not lie in the fundamentals. Ontario continues to have the potential to be a leader in growth. It is located at the centre of North America's richest market, its workforce is highly educated, and its industries are sophisticated and competitive.

But the Ontario economy faced a complex web of factors over the last six years: an overexpansion of government that has pushed up tax rates and diverted resources into the public sector; a dramatic restructuring of the private sector to meet global competition; and tight monetary policy that led to a run-up in interest rates.

Much of the private sector has tackled the difficult task of restructuring. In fact, many industries are exploiting new opportunities that international trade and access to growing markets have created. Exports are up and business investment plans are strong.

What the private sector needs now is a set of sound economic and fiscal policies that create balance and job growth in Ontario. Government must

- Improve the business climate by removing obstacles to growth;
- Restore consumer and business confidence by cutting taxes and creating jobs;
- Re-design government to focus on the services that people value most, and put more resources back into the hands of the private sector to create growth and jobs.

**Solid medium-term growth with sound economic policies**

**Growth in  
output and  
jobs**

Ontario Economy at a Glance  
(Per cent)

	1994	1995	1996	1997
Real GDP Growth	5.5	2.1	2.3	3.1
CPI Inflation	0.1	2.5	1.8	1.8
Job Growth	1.4	1.4	1.5	1.9

Source: Ontario Ministry of Finance projections

This report presents projections for the Ontario economy that are based on reasonable assumptions about key features of the external environment, including interest rates, exchange rates and the performance of the U.S. economy. These cautious projections on which we have based the overall fiscal plan should not be interpreted as targets for the Ontario economy.

For 1996 and 1997:

- Interest rates will remain near current levels, as both the Bank of Canada and investors react positively to low inflation and falling government deficits.
- Exports will continue to rise due to the strong competitiveness of Ontario manufacturers and growth in the U.S. and world economies.
- Business investment is expected to continue rising, reflecting improvements in both export and domestic markets.
- Consumer spending and housing will strengthen, supported by income growth and rising confidence.
- The small business sector is expected to resume job creation.
- With strengthening domestic demand, job growth will improve in 1996 and 1997.

With sound economic and fiscal policies, the Ontario economy has the capacity to grow strongly over the medium term, without generating inflationary pressures.

## PERFORMANCE 1990-1995

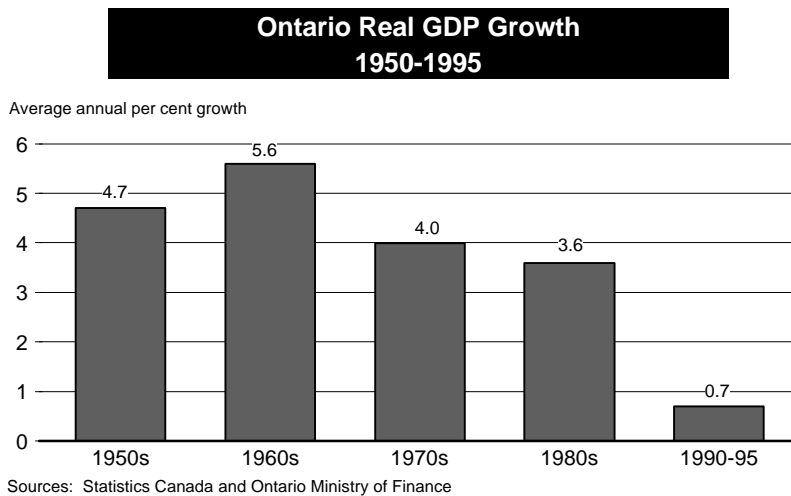
### Recent Weakness Clouds Underlying Strengths

Ontario's economy is modern, diversified and efficient. With a skilled and highly educated workforce and a rich resource base, it supports the highest per-capita personal income of any Canadian province.

Over the 40 years prior to 1990, the economy expanded at an average annual rate of 4.5 per cent. However, a number of factors have caused Ontario's economic growth to lag in the past six years. Rapid growth in government spending and overbuilding spurred on by skyrocketing asset values helped push up public and private debt levels in the late 1980s. This left the economy vulnerable to high interest rates. The accompanying run-up in the Canadian dollar hit the vital manufacturing sector as it restructured to meet global competition.

The resulting dislocations were compounded by rising public-sector debt and tax rates, which in turn contributed to the economy's slow and intermittent recovery.

**Workforce is skilled, highly educated**



**Among top three exporters to U.S.**

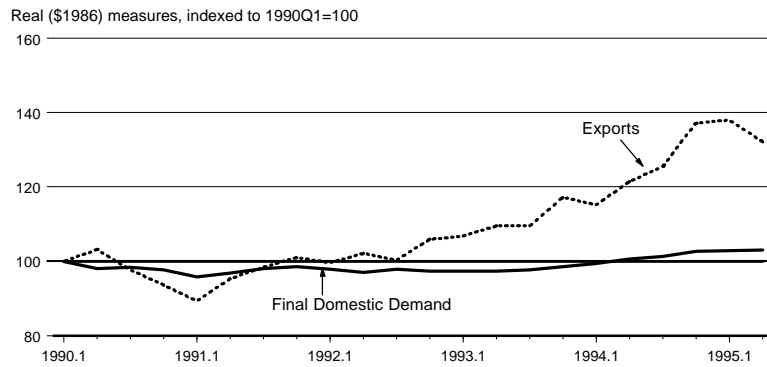
**Manufacturers Have Invested for Export Growth**

Ontario manufacturers have now moved beyond restructuring to expand their export markets strongly. They were able to capitalize on freer trade, U.S. growth and better cost-competitiveness. The auto sector played a key role, with exports growing by more than 64 per cent between 1990 and 1994. It now accounts for close to 43 per cent of total merchandise exports. The auto sector, along with the capital equipment and technology services sector and the industrial materials sector, helped place Ontario among the top three exporters to the United States, together with Germany and Japan.

Export-oriented firms were Ontario's largest investors in physical capital between 1991 and 1994. Machinery and equipment investment in the transportation equipment sector, which is 90 per cent autos, rose 71 per cent in real terms.

But the investment picture could have been brighter. The perception of an unfavourable business climate led some existing firms to invest less than they might have and dampened new firms' interest in moving to Ontario. Weak demand within Ontario discouraged investment by domestic-oriented firms.

**Ontario Real Exports and Final Domestic Demand 1990-1995**



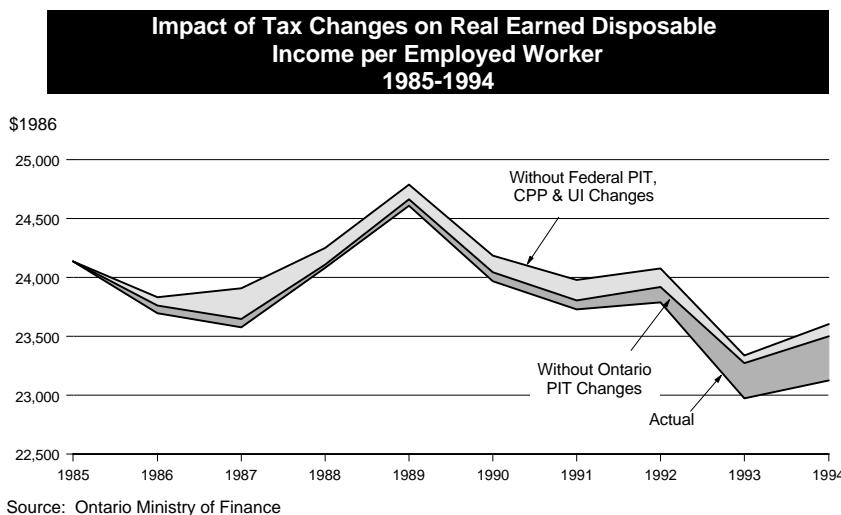
## Domestic Sector Slow to Recover

While export-oriented firms have regained lost ground, businesses that depend on domestic spending have been much slower to rebound.

A poor job market hit consumer incomes and made consumers wary. Many postponed home-buying, eliminating thousands of construction jobs. Technological change and restructuring also eliminated many processing and clerical jobs. People were out of work longer — 26 weeks on average in 1995, against 14 in 1990 — and thousands, especially young people, have stopped looking.

High personal tax rates have hurt domestic demand by cutting into disposable income. Real earned after-tax income per employed worker dropped from \$24,609 in 1989 to \$23,125 in 1994, a decline of 6.0 per cent. Not only have both before- and after-tax incomes fallen, but consumers' wealth has been adversely affected by falling real estate prices. These factors have limited consumer spending. High personal tax rates have also had the adverse effect of encouraging highly skilled people to seek work elsewhere.

## Declines in real after-tax income



**Ontario improves as U.S. economy picks up steam**

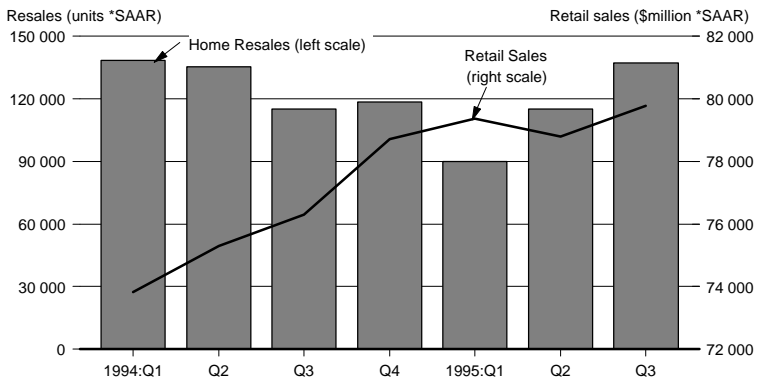
**Economy Strengthens in 1995 Second Half**

The Ontario economy stumbled in the first half of 1995 but a number of signs point to improved growth in the second half. The U.S. economy is stronger, accelerating in the third quarter to a pace of 4.2 per cent. The prospects for exports have brightened. Real Canadian merchandise exports rebounded 9.8 per cent in the third quarter. The value of Ontario's international exports are up 18.9 per cent over the first nine months of 1995.

There are encouraging signs of increased domestic demand. Ontario retail sales rebounded at a 5.1 per cent annual rate in the third quarter, led by strong auto sales. The housing market has revived with lower interest rates. Home resales in Ontario rose 19.2 per cent in the third quarter. Labour income jumped 1.1 per cent in August, reflecting an increase in full-time job creation. Ontario has created 31,000 full-time jobs over the past three months.

According to Statistics Canada, businesses plan to boost investment by 11.7 per cent in 1995. This is stronger than the 7.2 per cent increase suggested by a survey earlier in the year. Investment in the manufacturing sector will rise by 18.5 per cent, largely in machinery and equipment.

**Ontario Home Resales and Retail Sales**



\* Seasonally adjusted annual rate  
Source: Canadian Real Estate Association, Statistics Canada and Ontario Ministry of Finance

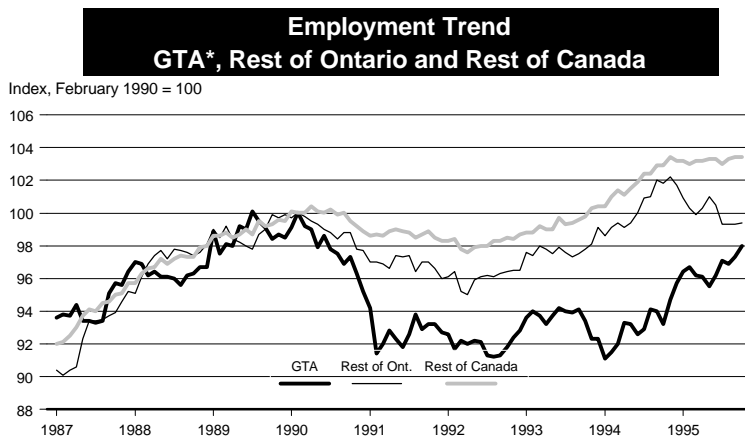
## Toronto Area Leading Job Growth in 1995

The Greater Toronto Area (GTA) is finally emerging from its economic doldrums, gaining 55,000 jobs in the first ten months of 1995. After five years of poor performance, employment in the GTA is now growing faster than in the rest of Ontario or Canada, and has reached 98 per cent of its pre-recession peak. The region's resurgence this year is largely the result of an upturn in its manufacturing firms, which have become more competitive. Financial and business service firms and tourism are also contributing to job creation.

In addition, job creation in the North remains strong. Strong resource exports and investment have led to an employment gain of 15,000 in the first ten months of 1995.

However, after three years of relatively strong growth, employment fell by 30,000 in both Eastern and Southwestern Ontario in the first ten months of 1995. Central Ontario's employment began to decline more recently. After a flat first quarter, the region has lost 24,000 jobs.

## GTA and North leading job growth in 1995



\* Labour Force Survey Region 530

Note: GTA series seasonally adjusted by Ontario Ministry of Finance

Sources: Statistics Canada, Labour Force Survey and Ontario Ministry of Finance

**Growth more  
balanced  
between  
domestic and  
export sectors**

## ONTARIO ECONOMY 1995-1997

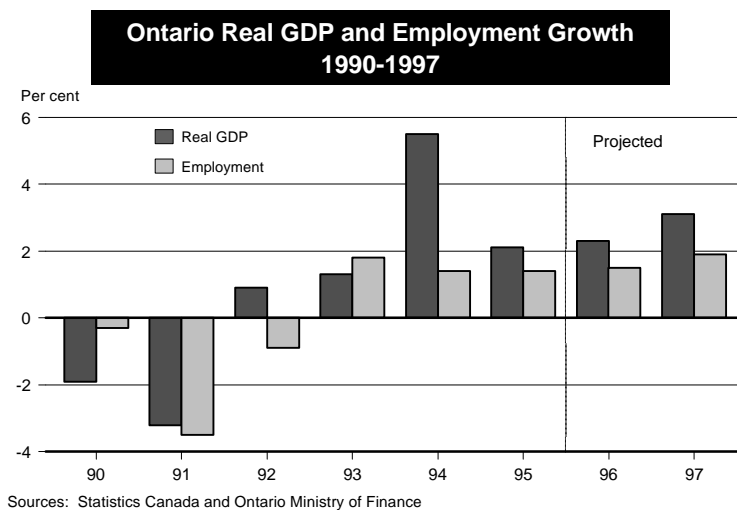
### Highlights

For purposes of fiscal planning, we project that Ontario's real GDP will grow by 2.1 per cent in 1995, 2.3 per cent in 1996 and 3.1 per cent in 1997.

While exports and investment will remain the leading sources of growth, the recovery is expected to become more balanced. Consumer spending and housing will strengthen, supported by income growth and rising confidence. Personal income tax cuts and improved job prospects will help rebuild consumer confidence. Government restructuring will dampen economic activity in the near term but is critical to solid growth in the future.

Employment is projected to grow 1.4 per cent in 1995, 1.5 per cent in 1996 and 1.9 per cent in 1997. The private sector will be the engine of job growth.

Job creation will be led by the financial and business services sector, along with household-related sectors such as housing construction and renovation, retailing, and leisure and entertainment. Strong export performance in manufacturing and resources will also support job creation across a wide range of industries.





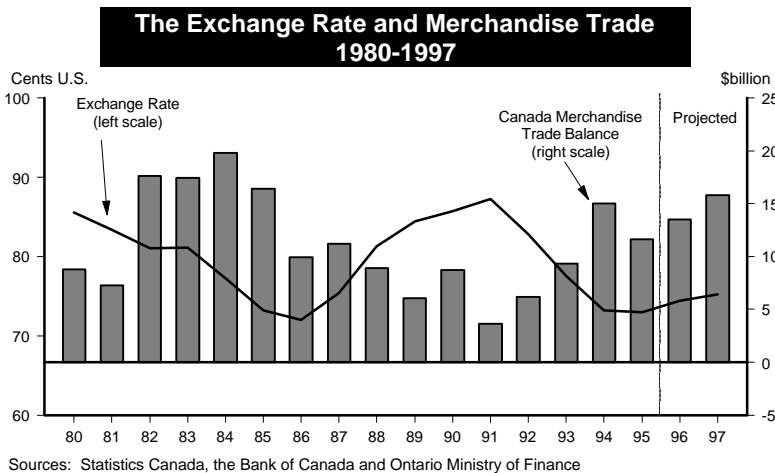
## Stable Interest Rates and Low Inflation

Following the Quebec referendum, interest rates have fallen to their lowest level since late 1994. Fiscal restraint and an absence of inflationary pressures have set the stage for stable interest rates.

Inflation in Ontario is forecast to fall from an average of 2.5 per cent in 1995 to 1.8 per cent in 1996 and 1997, well within the Bank of Canada's one to three per cent target band. Lower inflation reflects the large gap between the economy's actual and potential level of production. Intense competition will hold down price increases by firms, while rising productivity will help them keep costs under control.

Fiscal restraint, low inflation and an improving merchandise trade balance provide solid support for the Canadian dollar. It was trading between 73 and 75 cents U.S. in mid-November — a range at which Ontario exporters are highly competitive — up from a low of near 70 cents U.S. in January.

**Inflation remains moderate**



## Exports outpace U.S. growth

### Exports Will Continue to Lead Growth

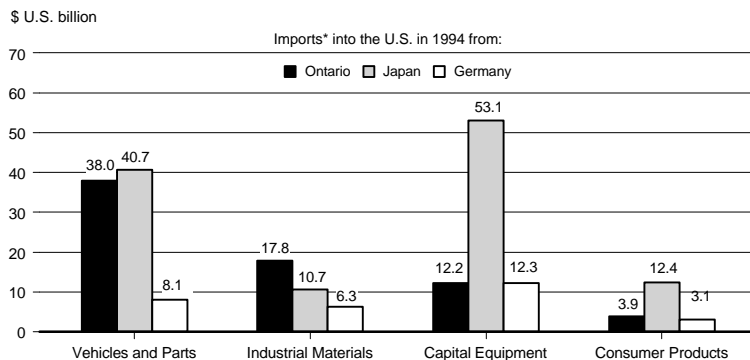
Ontario exports will continue to be a key source of growth, supported by improving U.S. demand, a competitive Canadian dollar and a restructured manufacturing sector. Export-oriented sectors will continue to increase market share in the United States, allowing Ontario exports to outpace the 2.4 per cent annual average growth of the U.S. economy.

Labour costs, which account for close to 60 per cent of production costs, are very competitive. In mid-1995, Ontario's hourly manufacturing wage, including health care costs and other payroll taxes, was C\$22.26, significantly below the Great Lake States, where wage costs ranged from C\$24.02 in New York to C\$32.10 per hour in Michigan.

Autos and auto parts, which account for 43 per cent of Ontario's international merchandise exports, continue to make gains in the North American vehicle market, displacing high-priced imports from Japan.

Rapidly growing exports of telecommunications, computers and other high-technology business equipment will continue to benefit from productivity-enhancing investment worldwide.

**Ontario is a Leading Exporter to the U.S.**



Sources: U.S. Department of Commerce, Statistics Canada and Ontario Ministry of Finance  
 \*U.S. definitions. Note: Industrial Materials include wood, paper and base metals but exclude petroleum.  
 Consumer Products exclude food and beverages.

## Competition Will Spur Business Investment

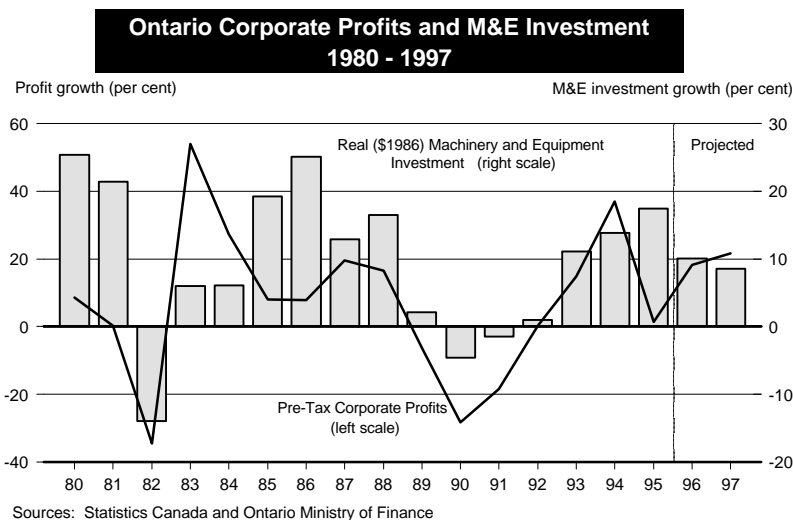
Real machinery and equipment spending, which grew at a double-digit pace from 1993 to 1995, will remain strong, rising by 10.1 per cent in 1996 and 8.5 per cent in 1997 as profits rise and firms strive to improve global competitiveness.

The financial health of firms has already improved. For Canadian non-financial industries, debt interest costs have fallen from 118.2 per cent of operating costs at the end of 1992 to 46.3 per cent in second quarter 1995. Profit margins have risen sharply as firms reap the rewards of investment in capital that lowers their cost of production.

Real non-residential construction investment rose 1.4 per cent in 1995, the first gain in five years. As the economy gradually absorbs excess capacity, this investment will strengthen and is forecast to rise by 0.8 per cent in 1996 and 4.0 per cent in 1997. Most of this increase will occur in communications, autos, mining and retailing. The entertainment and sports segment is also expanding with new facilities in Toronto and Ottawa.

**Strong growth in machinery and equipment**

**Gradual rise in non-residential construction**



**Tax cuts boost confidence, create jobs**

**Better job market will support housing and consumer spending**

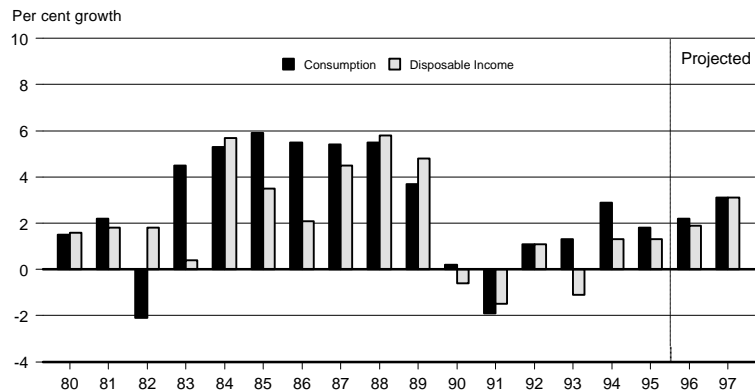
### Household Spending Tied to Income Gains

Growth will become more broadly and securely based as household spending revives, boosting the domestically-oriented sectors of the economy. Employment growth and lower taxes will raise disposable income and contribute to stronger consumer confidence. Real disposable income is forecast to rise by 1.9 per cent in 1996 and 3.1 per cent in 1997, fuelling consumer spending growth of 2.2 per cent and 3.1 per cent.

Housing starts are forecast to rise from 33,100 units in 1995 to 42,500 in 1996 and 55,000 units in 1997. Housing affordability has improved significantly because of lower interest rates and the fall in prices. Monthly carrying costs for an average resale home dropped from almost \$1,700 in April 1990 to just over \$1,000 today. As housing prices stabilize and consumer confidence firms, more people will decide that the time is right to enter the housing market.

During the first half of the 1990s, when young people couldn't find work, they postponed forming their own households, and they also cut back on spending for consumer goods and services. This has resulted in a backlog of demand that will provide significant support to the domestic economy as jobs become more plentiful over the next two years.

**Ontario Real Consumption and Real Personal Disposable Income 1980-1997**



Sources: Statistics Canada and Ontario Ministry of Finance

## Broad-based Growth for the Private Sector

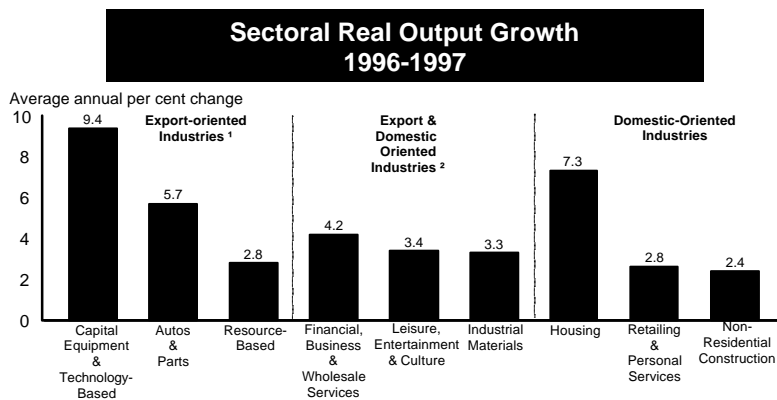
More balanced growth in demand across the economy will lead to better performance across a wide range of industrial sectors and provincial regions. Export-oriented sectors such as autos, important to Southwestern Ontario, and capital equipment will continue to gain market share in the U.S. Many small firms are now exporting for the first time and will flourish as the business climate improves.

Production in sectors relying on both export and domestic markets, such as Toronto's financial and business services, will grow more firmly and remain an important source of jobs. These service industries are also major exporters to other provinces and will benefit from their growth.

Output in sectors driven primarily by household spending — housing, retailing, leisure, entertainment and culture — will recover as a result of greater consumer confidence based on higher incomes and lower tax rates. These household-related sectors will return as important sources of job creation.

**Export sectors expand**

**Domestic-oriented sectors begin recovery**



1 Export well over 50 per cent of their output internationally. Resource-based industries include mining and wood products but exclude agriculture because it depends largely on domestic demand.

2 Rely mainly on domestic demand although some also export to other provinces and countries.

Source: Ontario Ministry of Finance

**Competitive strengths remain**

**Public sector restructuring will change business and consumer attitudes**

## SETTING THE STAGE FOR GROWTH

### Increasing Productivity and Economic Growth

Ontario is well positioned for strong growth. It has superior access to the world's largest market, strong auto and resource-exporting sectors, and rapidly growing high-technology industries. It also has a higher rate of post-secondary education than any country in the world.

Moreover, competitiveness indicators for the most part favour Ontario. Unit labour costs fell 17 per cent in U.S. dollars from 1990 to 1994, compared to an increase of 2 per cent in the United States. The Toronto area consistently ranks as one of the world's most economically attractive city regions.

These competitive strengths augur well for future productivity growth. And productivity growth leads to higher incomes, makes the province's exports more competitive, and stimulates new investment – all of which pay off in job creation.

But change is needed to reverse the disappointing trends of the early 1990s and trigger renewed optimism about the economy. Sound provincial economic and fiscal policies can act as a catalyst to restore the private sector's role as the engine of growth for the Ontario economy:

- Improving the business climate will provide an impetus for business investment – a major component in increasing the real productive capacity of the Ontario economy.
- Reviving consumer confidence will raise domestic demand, as tax cuts give consumers more disposable income and small businesses more incentive to create jobs.
- Changing the role of government – by getting rid of the deficit, cutting taxes, and restructuring the public sector – will shift resources to the private sector and stimulate medium-term growth.

## Improving the Business Climate

Over the past decade, business perceptions about Ontario as a place to do business have deteriorated. In a quarterly Conference Board survey of Canada's 400 largest corporations, many headquartered in Ontario, 40 per cent of respondents cited government policies as the most important factor hindering investment in 1995, up sharply from 24 per cent in 1988.

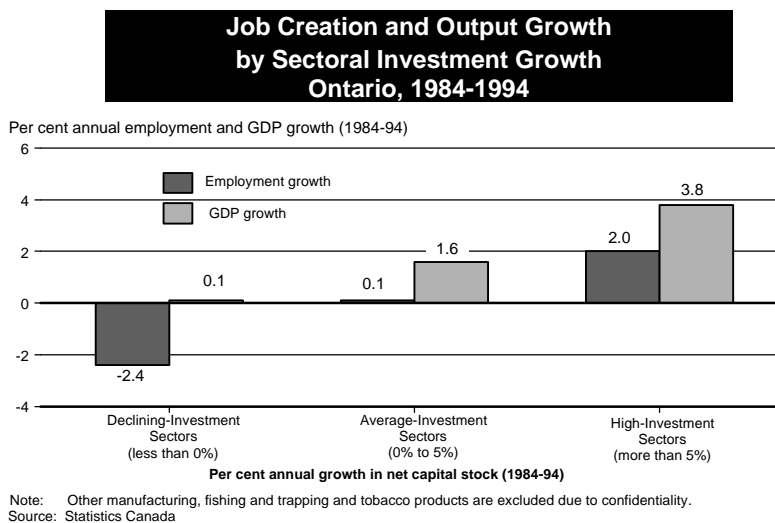
Although its corporate income tax rates for manufacturers are generally competitive, Ontario's taxes on individuals are high compared to the U. S. In addition, rising payroll taxes have discouraged job creation. Payroll taxes as a share of wages have risen 67 per cent over the past five years.

Inefficient regulation also creates obstacles to growth. Although regulatory efficiency is hard to measure, changes that reduce costs to firms or that create more efficient markets (e.g., speedier land-use and environmental approvals) will increase economic growth.

A better business climate helps to attract more investment, and more investment means more jobs. In the last ten years, high-investment sectors in Ontario increased employment at an average rate of 2.0 per cent per year. In other sectors, employment either remained flat or declined, emphasizing the need for a business climate that encourages investment.

**Rising concern about government policies ...**

**... reinforces the need to improve business climate**



**Overextension  
of government**

**Restructuring  
due to fiscal  
necessity and  
economic  
competitiveness**

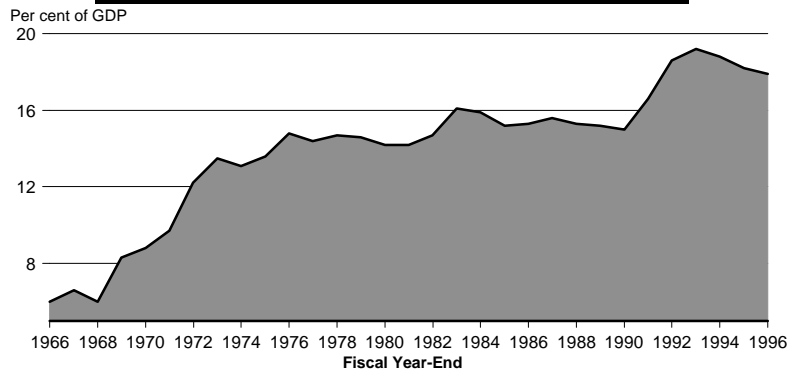
**Changing the Role of the Public Sector**

Over the past two decades, total spending by all levels of government in Ontario has risen from 32 per cent of GDP in 1970 to 44 per cent in 1994. Provincial expenditures have grown much faster than the economy – rising from 6 per cent of GDP thirty years ago to 18 per cent today.

The current level of spending weakens Ontario's international competitive position. In a world of highly mobile labour and capital, the tax levels needed to pay for this spending risk driving out individuals and firms. A smaller, more focused government will contribute to better economic performance.

The sweeping restructuring under way in the private sector is spreading to the public sector as a matter of both fiscal necessity and economic competitiveness. Technology is changing the definition and management of the public sector, making it possible to deliver core public services in new ways or enabling the private-sector to deliver them. Productivity gains from public-sector restructuring, along with changes in private sector incentives, will improve the province's international competitiveness.

**Provincial Expenditure as a Share of GDP  
Ontario, 1965-66 to 1995-96**



Note: Data on a modified cash basis  
Source: Ontario Ministry of Finance



## Getting the Debt Under Control

Over the past five years, Ontario's debt has more than doubled, rising from roughly \$4,000 to \$8,750 per capita. It is now close to \$100 billion, equal to about 31 per cent of provincial GDP.

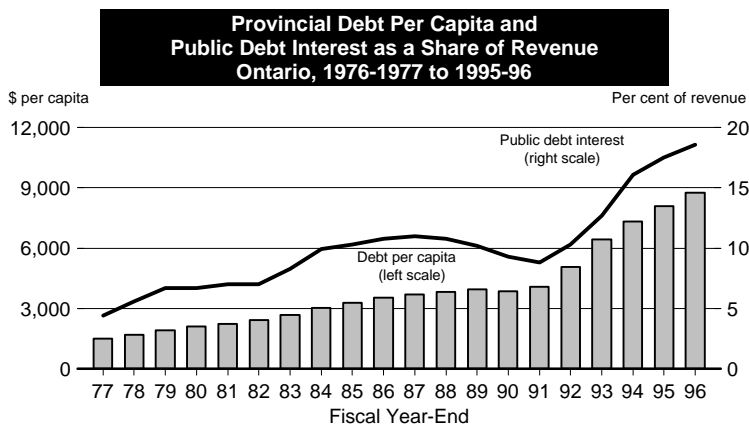
This year, Ontario will spend close to 19 cents of every dollar it receives on public debt interest, up from about 9 cents only five years ago.

Persistent deficit financing results in a major transfer of wealth from future generations to support current consumption and debt interest payments. High debt and deficit levels also create an expectation of future tax increases that suppresses business investment. In addition, lenders demand risk premiums that raise borrowing costs for firms and consumers alike.

Economic growth alone will not solve the deficit problem. Even with robust growth, a large deficit would remain in the absence of other action. While higher growth will contribute to deficit reduction, large spending reductions still will be needed to get rid of the deficit.

**Accelerating growth in debt and interest costs**

**Economic growth and spending cuts both needed**



Source: Statistics Canada and Ontario Ministry of Finance

**High and rising tax burden**

**Lower tax rates will support economic growth**

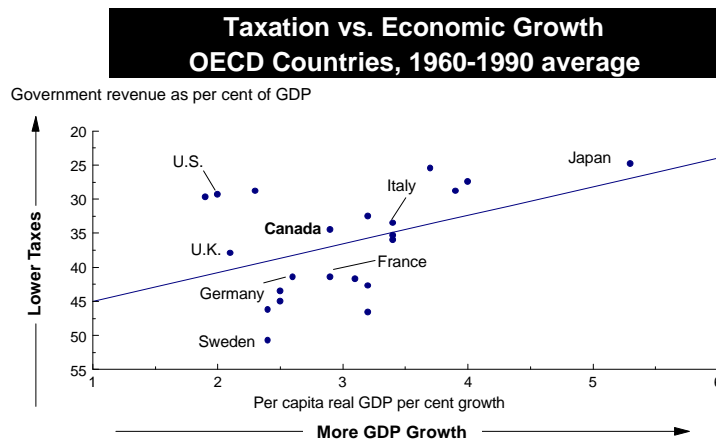
**Reducing the Tax Burden**

Tax increases will not solve the debt and deficit problem.

The total tax burden in Ontario (including taxes levied by all levels of government) is among the highest in Canada and has increased faster than the national average. Between 1981 and 1993, it increased from 31.8 per cent of GDP to 37.0 per cent and is now well above the United States and all other provinces except Quebec.

Ontario's high and growing rate of taxation has contributed to its weak economic performance by cutting into consumer purchasing power, reducing the incentives for entrepreneurs, and making it more difficult for firms to attract and keep highly skilled workers.

Several cross-country studies have found that tax reductions are associated with faster economic growth. When tax levels are high, a tax reduction can permanently increase the growth rate of GDP by changing investment incentives. Lower taxes can improve investment incentives by raising after-tax returns on investment, making Ontario more attractive to international investors, and reducing distortions of investment decisions created by high taxes. Investment in physical and human capital is associated with faster productivity and output growth.



Sources: Statistics Canada and Ontario Ministry of Finance

## Bringing Back Small Business

All businesses suffer when governments impose unnecessary costs on the private sector. But small businesses have been particularly affected because they bore the brunt of the 1990s decline. Net job creation by small businesses plummeted from annual levels approaching 200,000 in the late 1980s to net job losses in the 1990s.

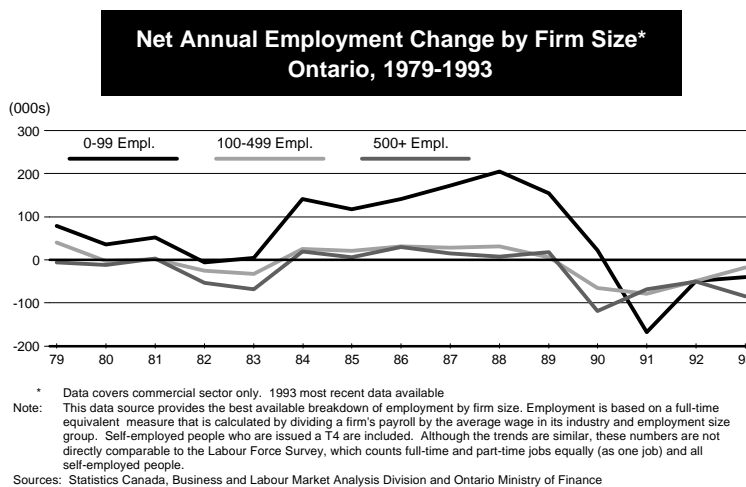
Several factors added to the pressures on small business in the 1990s – weak demand, the introduction of the Employer Health Tax (EHT), increases in the minimum wage, high interest rates and new regulations.

Measures to improve the business climate, along with reduced personal income taxes and EHT relief, will stimulate future small business growth and job creation. Consumer confidence will rise as a result of the positive effect of the income tax cut on disposable income, leading to improving domestic demand conditions for small business.

In addition, the income tax cut will help to cushion the impact of the spending cuts involved in restructuring the public sector: adjustment will take place more readily because job creation in the private sector will rise at the same time that employment in the public sector is shrinking.

## Small business under pressure

## Tax cut will encourage job creation and cushion government downsizing



**Government restructuring making way for private sector growth**

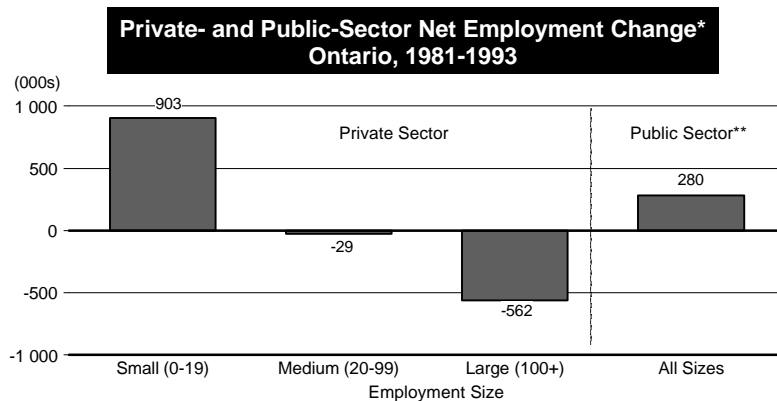
**Small business key job generators**

### Future Job Growth Led by the Private Sector

The public sector accounted for 41 per cent of the province's net new jobs between 1984 and 1994, despite having only a 21 per cent share of employment. As government restructures, this trend will change and the private sector will create most of the new jobs in the future.

In the early 1990s, the public sector continued to create jobs while private-sector employment declined dramatically. By 1994, public-sector employment was flat, while private-sector employment remained below its late 1980s peak. In the first ten months of 1995, however, the private sector created 134,000 jobs on a year-over-year basis, while public-sector employment fell by 52,000 jobs.

If experience is a guide to the future, small businesses will create the lion's share of new private-sector jobs. Firms with fewer than 20 employees created 903,000 net jobs between 1981 and 1993, despite losses during the early 1990s. In contrast, firms with 20-99 employees lost 29,000 jobs and firms with 100+ employees lost 562,000 jobs. This trend toward smaller organizations emphasizes the need for a business climate that favours start-ups and encourages small business growth.



\* 1993 most recent data available. Data not available before 1981.  
 \*\* Includes public administration, health, education and welfare.  
 Note: Employment estimates are based on individual labour units, which are compiled by Statistics Canada from Revenue Canada files. All persons who are issued a T4 are counted.  
 Source: Statistics Canada, Business and Labour Market Analysis Division and Ontario Ministry of Finance.

## Sound Policies Support Medium-term Growth

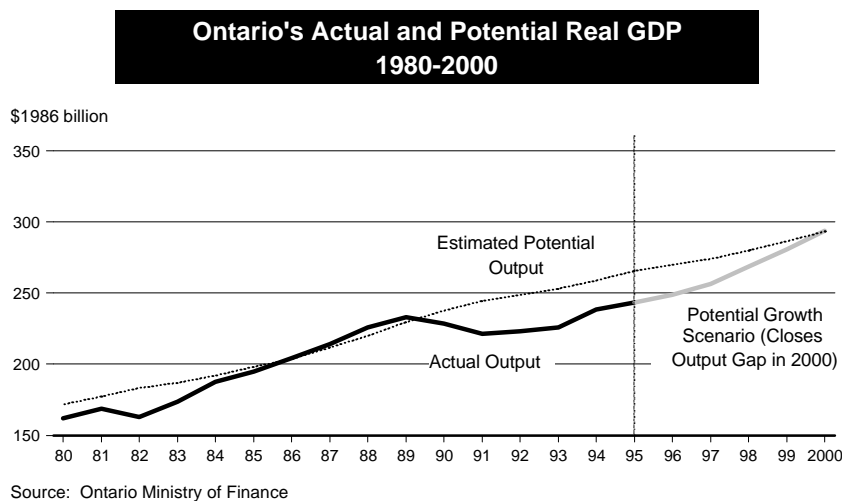
Ontario has experienced a period of exceptional economic weakness through the first half of the 1990s. Nevertheless, it retains the underlying strengths that made it an economic powerhouse throughout most of the post-war era. The task for government is to remove impediments to growth and unleash the potential of the economy.

This task has three elements:

- Improving the business climate by minimizing the regulatory and tax burdens that obstruct investment and job creation;
- Restoring consumer confidence by cutting taxes and creating jobs; and
- Making government smaller and better.

While fiscal planning is based on cautious economic assumptions, the economy has the capacity to grow much more rapidly without generating inflationary pressure: by more than four per cent per year over the period from 1998 to 2000. The Ontario government is committed to putting in place the policies that will allow that to happen.

**Solid medium-term growth possible with sound economic policies**







# THE ONTARIO ECONOMY

## Ontario Economy at a Glance (Per cent)

	1994	1995	1996	1997
Real GDP Growth	5.5	2.1	2.3	3.1
CPI Inflation	0.1	2.5	1.8	1.8
Job Growth	1.4	1.4	1.5	1.9

Source: Ontario Ministry of Finance projections.



