Ontario Fiscal Policy
Trends and Challenges

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School of Public Policy & Governance
UNIVERSITY OF TORONTO

ONTARIO 360

Ontario’s Fiscal Situation

- 2017-18 saw a surplus of $642 million after years of deficits, but 2018-19 budget projects a deficit of $6.7 billion and a net provincial debt of $325 billion with deficits projected to continue for five years afterwards.
- With the anticipated rise in interest rates and subsequent rising debt service costs, as well as the potential for an economic slowdown in the wake of trade uncertainty, Ontario faces fiscal sustainability issues.

Why Is Sustainability Important?

- Public goods provided by government in health, education, social services and infrastructure are vital the 21st century economy and the social welfare of its population but they are jeopardized if public finances are not sustainable.
- If governments truly want to help people, they need to ensure that they deliver consistently and responsibly funded needed public services that do not exceed to ability of the resource base to fund them.

Evolution of Ontario Public Finances

Ontario’s fiscal situation has been decades in the making

- From 1981 to 2018, revenues have *actually grown slightly faster* than spending.
- However, cyclical downturns have led to periods where quite large gaps have opened up between revenues and expenditures that have taken time to close.
- Trigger periods being the recessions of 1980-81, 1990-91 and 2008-09
- Ultimately, addressing Ontario’s fiscal problems require a consistent and persistent effort to *mind the gap*.

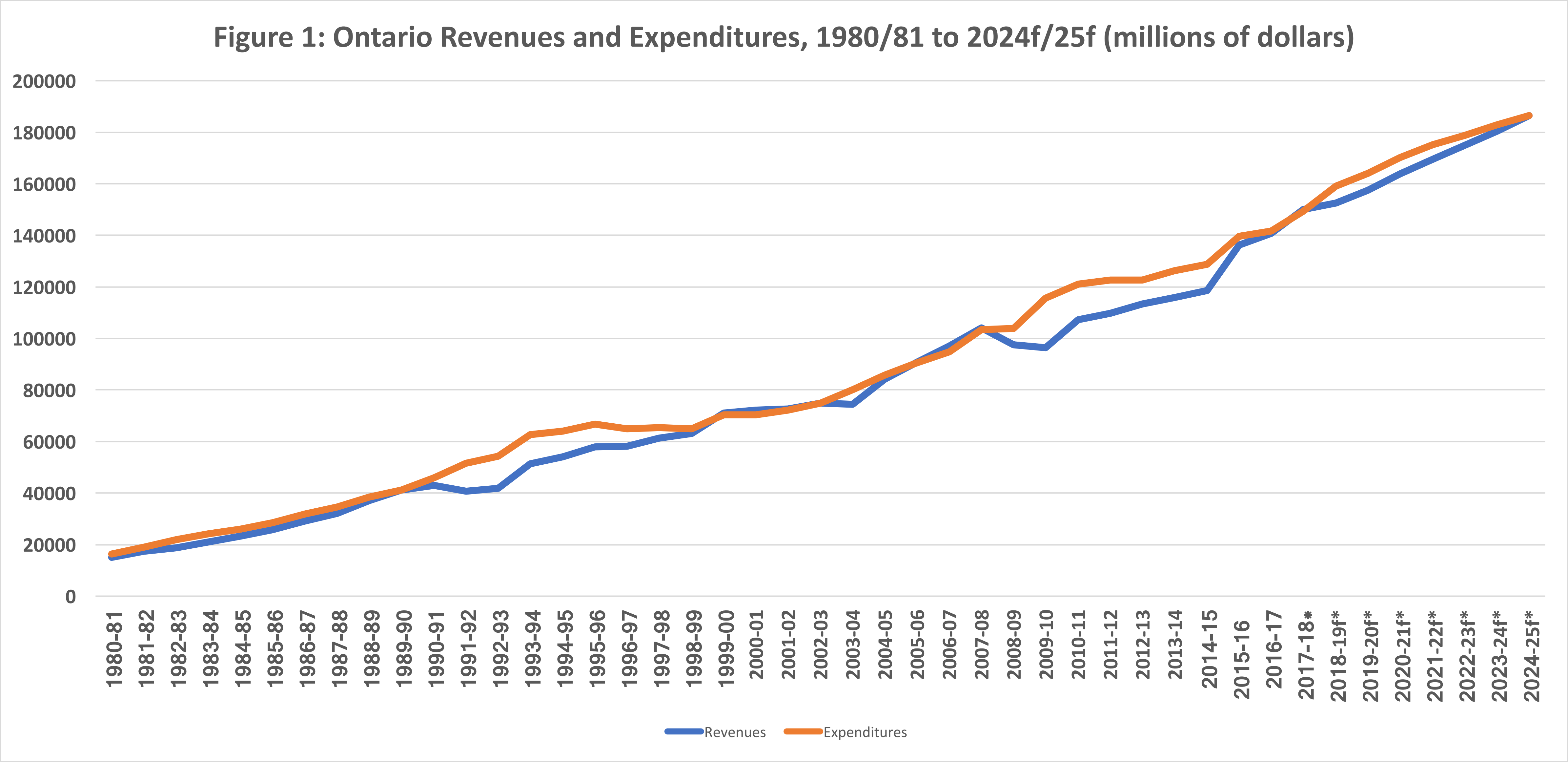

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Figure 2: Ontario Provincial Government Deficits/Surpluses and Deficit/Surplus to GDP Ratio, 1980-81 to 2024-25f

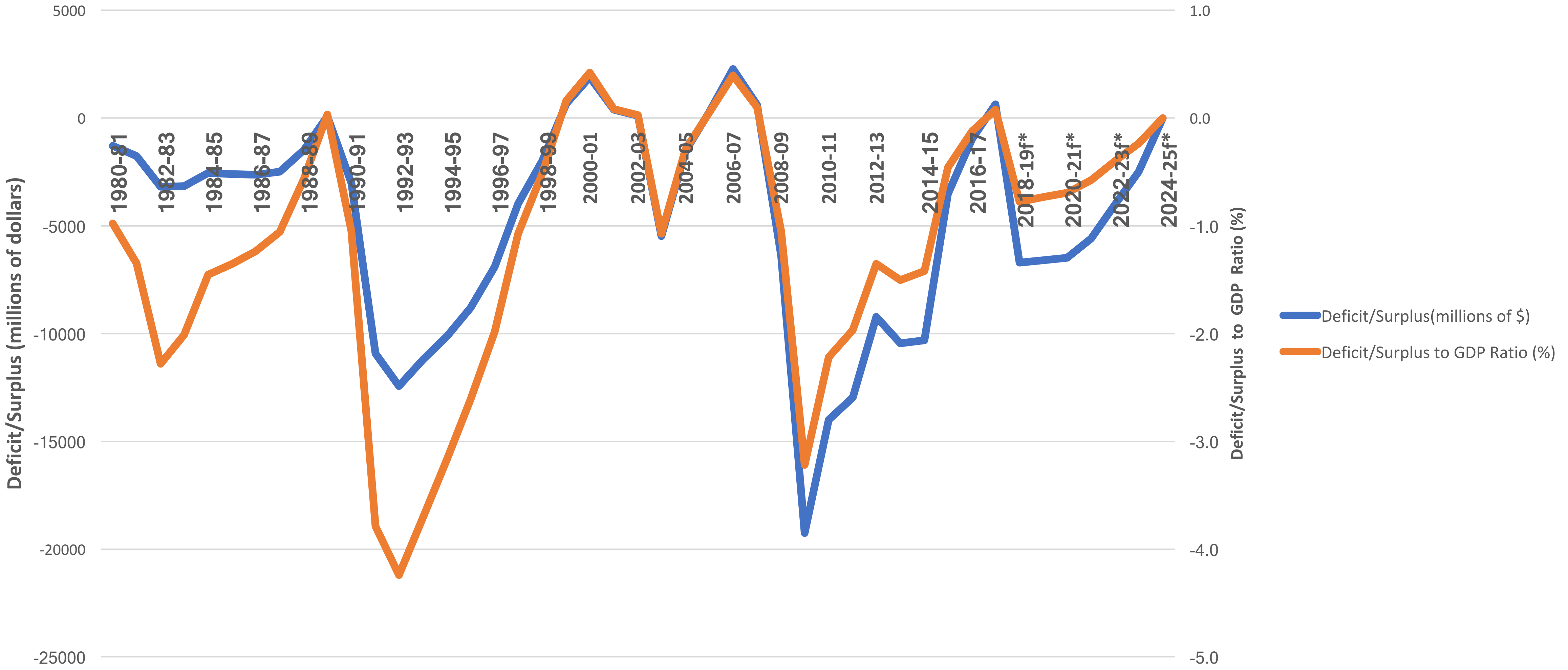
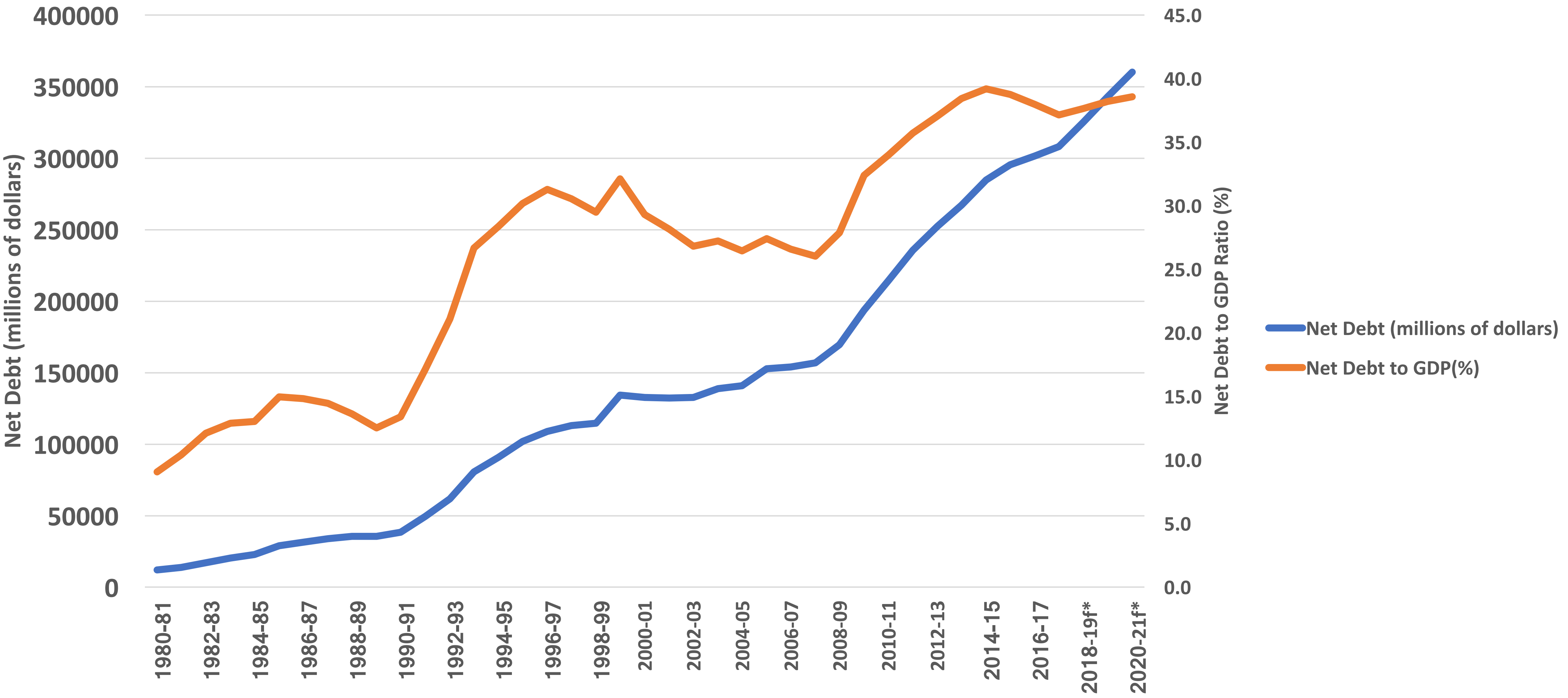


Figure 3: Ontario Net Debt and Debt to GDP Ratio, 1980-81 to 2020-21f



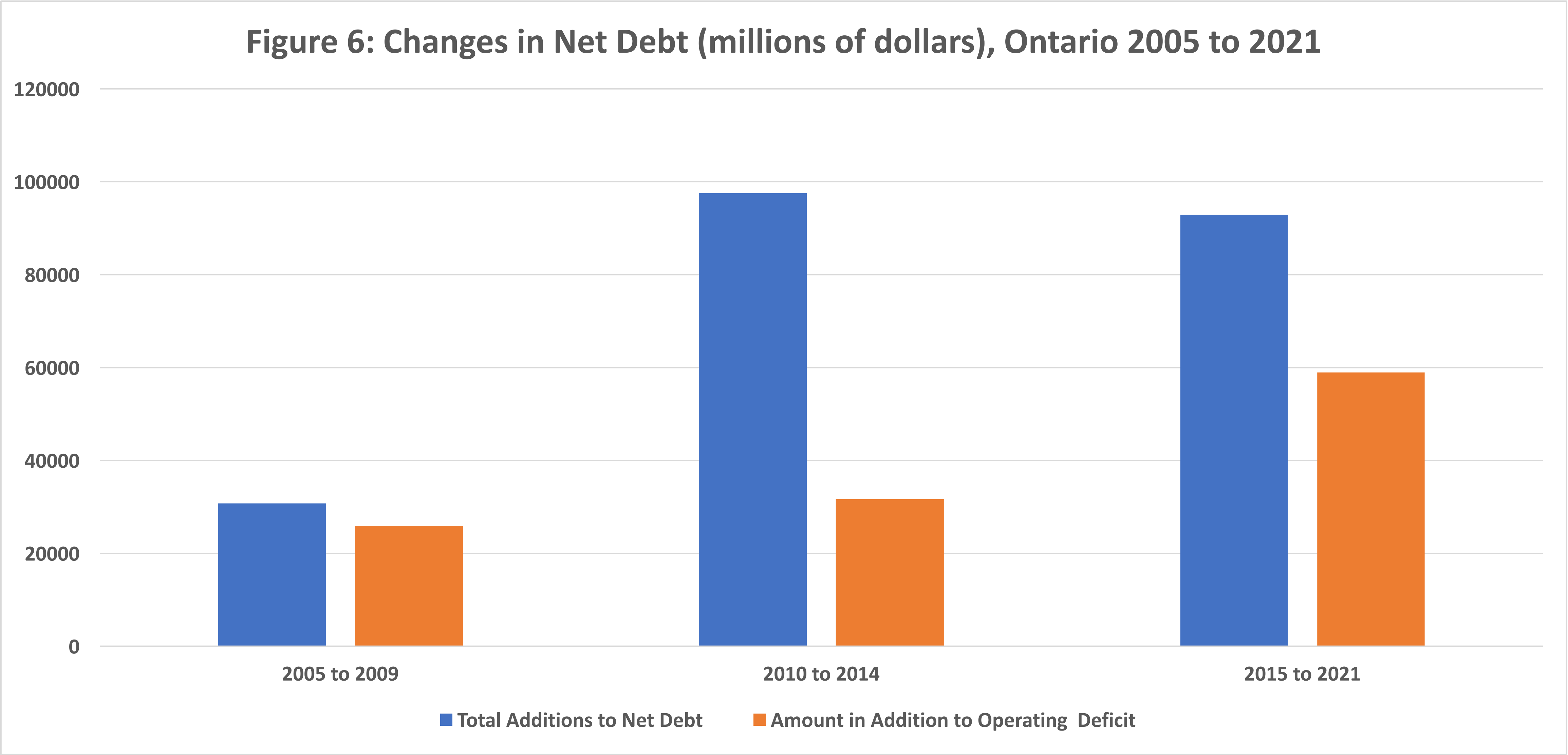


Figure 6: Changes in Net Debt (millions of dollars), Ontario 2005 to 2021
120000
100000
80000
60000
40000
20000
0
2005 to 2009
2010 to 2014
2015 to 2021
Total Additions to Net Debt
Amount in Addition to Operating Deficit

Challenges to Ontario's Public Finances

- Aging population and rising demands for health care and long-term care.
- Economic uncertainty given NAFTA and international trade considerations, timing of current business cycle.
- Rising interest rates given the Bank of Canada appears to have embarked on a series of increases.
- Need to continue investing in human, social and physical capital and infrastructure.
- Enrichment of spending including health and social initiatives as well as Fair Hydro Plan which involves lowering electricity bills for residential and business customers.

Recommendations for Change: A Five Point Strategy

1. Expenditure Growth Target 2+1

- Setting an annual expenditure target growth rate equal to the annual rate of inflation (currently 2 percent) plus the rate of population growth of approximately 1 percent.
- The total savings from following the 3 Percent Rule compared to the Ontario budget projections for 2018-19 to 2024-25 is $37.2 billion.

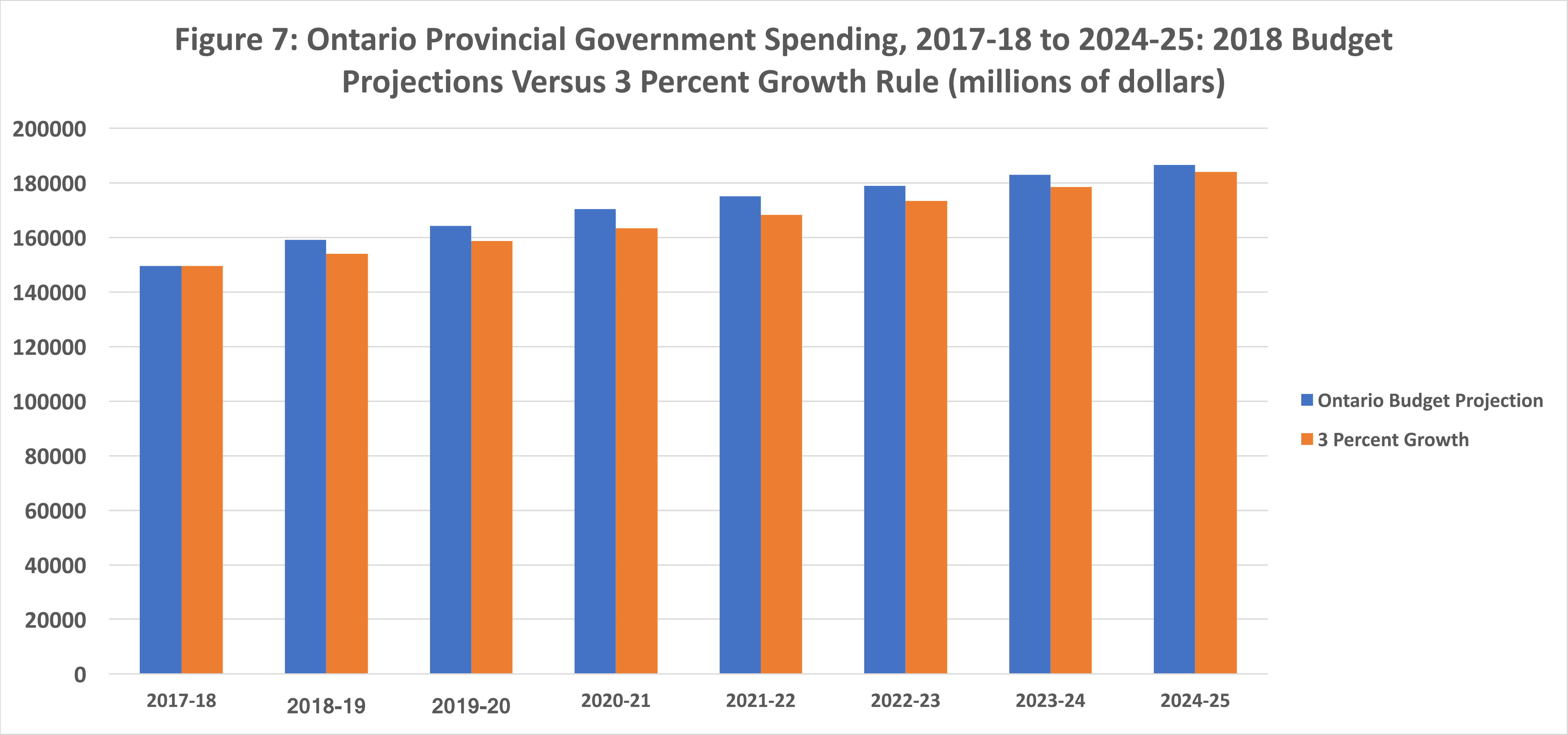


Figure 7: Ontario Provincial Government Spending, 2017-18 to 2024-25: 2018 Budget Projections Versus 3 Percent Growth Rule (millions of dollars)
200000
180000
160000
140000
120000
100000
80000
60000
40000
20000
0
2017-18
2018-19
2019-20
2020-21
2021-22
2022-23
2023-24
2024-25
Ontario Budget Projection
3 Percent Growth

2. Expenditure Review

- Undertake a comprehensive review of what government does with the aim to enact transformative change and efficiencies and restructure public spending.
- One model worth considering would be the program review initiated by the Federal government in response to the federal fiscal crisis of the early 1990s.

3. Surplus Disposition Strategy 1+1+1

- Earmark the fiscal dividend from future surpluses three ways:
  - one-third should go to paying down the public debt;
  - one-third should go to reducing the tax burden in an effort to stimulate new economic activity and
  - one-third earmarked to finance new initiatives.

4. Independent Capital Expenditure Review Process

- Establish an independent project review panel consisting of an arms-length expert panel (accountants, economists, engineers, business people) to do evaluations as to whether a project is needed.
- Such a panel could also suggest cost effective ways to implement projects that are deemed necessary.

5. Sinking Funds for Capital Infrastructure

- If the provincial government is to continue its current approach of separating capital from operating budgets, then it needs to account for more than the user cost of capital when calculating the deficit.
- Make provisions for paying back an annual portion of the capital project principal borrowing via a sinking fund approach.

QUESTIONS AND DISCUSSION