

ONTARIO ALTERNATIVE BUDGET 2006

> technical paper 2

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Ontario's Fiscal Windfall

Setting Up Good News This Year, or Next?

By Hugh Mackenzie

Budgets are always, above all, political documents. But the timing of the upcoming 2006–7 Ontario Budget is more transparently political than most.

Ontario's budgets are normally released in April or May, following a Throne Speech and allowing plenty of time for the government to digest the impact of the Federal Budget, which usually comes out at the end of February.

Given the delay in the Federal Budget until April and the uncertainty surrounding its likely provisions for federal transfer payments, it would have been reasonable to expect Ontario's 2006 budget to be later than usual.

Yet in a first for the province, Ontario's 2006 budget will be released on March 23 — a full two months earlier than last year's and ahead by a month of the normal budget schedule.

Why? The Minister of Finance claims the government is just meeting a commitment it made last year to bring the budget in before the

end of the fiscal year. But the fact that the budget was announced with barely three weeks' notice for a day on which the Legislature was not even scheduled to be sitting makes that claim more than a little thin.

While it would certainly be tempting to use the early budget as a way to draw a clear line between budget possibilities before Stephen Harper's first budget as prime minister and what is possible thereafter, the real answer to the timing question lies in the much greater scope for budget manipulation when the budget is presented before the end of the previous fiscal year.

The truth is that Ontario is having a much better year in 2005–6 than was forecast at budget time last year. Rumours of a corporate income tax windfall in 2005 have fuelled speculation about new subways and other pieces of budgetary good news. But even without the fabled corporate revenue tax windfall, Ontario was going to run

into trouble keeping this year's deficit high enough to justify planning for another deficit in 2006–7.

As of the end of the third quarter of 2005–6, revenue from corporate and personal income tax was running \$465 million ahead of forecast. Debt service costs were \$225 million below forecast. And the projected deficit was running more than \$400 million ahead of forecast, at approximately \$2.4 billion.

Furthermore, that improved fiscal environment still includes more than \$1.5 billion in contingency funds and reserves that had not been used up $\frac{3}{4}$ of the way through the fiscal year.

As OAB Technical Paper #1 pointed out in February 2006, Ontario was headed for a deficit of less than \$1 billion for 2005–6 rather than the \$2.8 billion originally forecast, even before the corporate tax windfall rumours started circulating.

While this better performance is good news for the province, it is potentially a wasted opportunity for the provincial Liberals. If the government were to let the current year run its course, it would have a sub-\$1 billion deficit in 2005–6 and would be facing a projected increase in the deficit in the pre-election fiscal year of 2006–7.

The timing of the budget is designed to take care of that problem.

The objective, however, is not to enable the government to produce a “good news” budget for 2006–7. The objective is to create the foundation for a “good news” budget to be tabled in March 2007, on the eve of the 2007 provincial election. In other words, we are being set up for the next election.

So what does that mean as we head into the budget?

Most important, the deficit for 2005–6 is not going to be \$1 billion, for the reasons stated above. There is no point in wasting that kind of fiscal good news on last year's budget when it can be saved for a future budget. So we should look for

a big jump in expenditures in the last quarter of 2005–6 to absorb some of the fiscal good news.

How much? This year's deficit was originally forecast to be \$2.8 billion, and is already down to \$2.4 billion. With \$1.5 billion in unspent reserves and contingency funds, and untold additional gains from the corporate tax windfall, the government is in a position to pick the deficit it wants. If, for example, the government chose to match last year's deficit of \$1.6 billion, it would still have at least \$700 million — and probably a lot more — to play with.

What about the deficit for 2006–7? If the government intends to release an election budget before going to the polls in spring 2007, there's no reason to dissipate the 2005–6 windfall in the 2006–7 budget. If that's true, we should expect to see a forecast deficit for 2006–7 at or slightly below the \$2.4 billion for 2006–7 currently in its 4-year fiscal plan.

And then, if all goes according to plan, the government will be able to do it all again for the 2007–8 budget. That would mean presenting the budget in March 2007 to facilitate end-of-fiscal-year “adjustments” that deliver the good news that's needed in an election budget. And it would mean adjusting the timing of expenditures between 2006–7 and 2007–8 so that the Provincial Auditor can report that Ontario can expect a balanced budget in 2007–8, just in time for the election.

How will we know what they've done? Look at the numbers for program and capital spending for 2005–6. Ontario Finances for the third quarter of 2005–6 show program spending of \$71.2 billion, including just over \$400 million in unexpended contingencies. So program spending above \$70.8 billion will reflect end-of-year manipulation of the timing of spending. Similarly, 3rd quarter Ontario Finances projects \$2.7 billion in capital spending, including an unspent contingency of \$117 million.

Capital spending above \$2.6 billion will again be a measure of end-of-year timing manipulation.

We already know what the budget story is going to be. This year, the government is going to declare that everything is just fine; that it is on track to balance the budget exactly when it said it would. And next year, after declaring victory over the deficit, the government is going to treat

Ontarians to a “fiscal dividend”, just in time for the election.

The only thing that’s missing is the detail as to how this miracle is going to be performed. For that, we’re going to have to wait for the budget — and read carefully between the lines when it arrives.



410-75 Albert Street, Ottawa, ON K1P 5E7

TEL 613-563-1341 FAX 613-233-1458 EMAIL ccpa@policyalternatives.ca

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