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ONTARIO ALTERNATIVE BUDGET 2006
› technical paper 4

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Setting the stage for 2007-8

A Comment on the 2006-7 Ontario Budget

By Hugh Mackenzie

The McGuinty government's third budget did exactly what everyone expected it to do.

It used up a turn-around of $3 billion in revenue and debt service costs in 2005–6 in year-end expenditures, providing a flurry of high-profile goodies. These expenditures, including a $1.2 billion trust fund for transit and highways, are part of the 2006–7 budget but are paid for from the 2005–6 windfall.

It orchestrated the timing of its expenditures and massaged its forecasts to avoid balancing the budget in 2005–6, and to ensure that the province's deficit continues to follow the tidy and steady decline set out in its first budget plan.

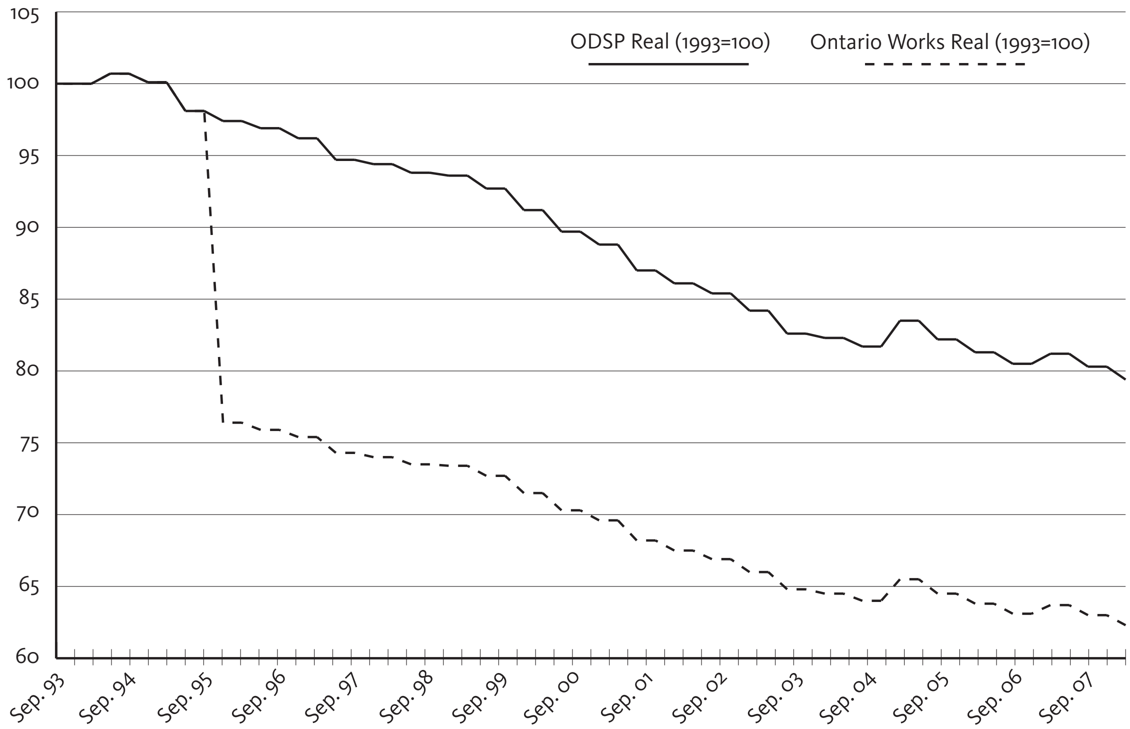
And most important, it sets the government up for a good news budget next year, full of attractive announcements but still balanced as the government heads into an election:

- By accounting for most of this year's budget announcements in 2005–6, it leaves ample fiscal room for a repeat performance of attractive year-end announcements next year;
- The 2006–7 budget includes more than $2.5 billion in contingency funds and reserves — reserves that were largely not needed in 2005–6;
- The revenue forecasts continue to be extremely conservative, making another "surprise" revenue windfall next year a virtual certainty;
- Despite having had to admit this year that it had overstated debt service costs in 2005–6 by over $700 million, it is still forecasting a jump of $400 million in 2006–7.

In short, this budget isn't even really about 2006–7. It is about using up the extra revenue generated in 2005–6 and setting up a pre-election budget in 2007–8.

In fact, without the $2.1 billion in new measures paid for in the 2005–6 fiscal year, there would actually be very little in this budget.

CHART 1 **Ontario Works and ODSP Rates, Adjusted for Inflation (1993=100)**



RECYCLING AS A BUDGET STRATEGY

Other than the $1.2 billion in trust funds for transit and highways and the one-time-only sectoral investments, most of the budget looks backward to previously-announced initiatives — essentially a recycling exercise. In health, in elementary and secondary education, in child care, in postsecondary education and in housing, the budget reviews, summarizes and repeats announcements made previously.

Otherwise, there's virtually nothing new. A small amount for 104 additional medical school spaces. A doubling of the sales tax rebate for hybrid vehicles. Funding for insulin pumps for children with diabetes. No progress on child care. Nothing to address the continuing problems with elementary and secondary education funding. Absolute silence on the double-inflation increases in college and university tuition announced last week.

A BETRAYAL OF ONTARIO'S POOREST CITIZENS

And most tellingly, an increase of only 2% in benefits for Ontarians who depend on disability benefits and Ontario Works for a less-than-subsistence standard of living. The failure of the government to address the financial crisis faced by the poorest of Ontario's citizens is a disgrace.

The McGuinty Government's latest 2% increase — to take effect in September 2006 — will still leave the poorest Ontarians worse off at the end of the government's mandate, when inflation is taken into account, than they were when the government was elected in September 2003.

The above chart tells the story.

The crisis of poverty in Ontario has been ignored. Despite the financial good news, there is nothing new for child care. Despite the financial good news, there is nothing new for affordable housing. And despite the financial good news, the government is still determined not to deliver on its campaign promise to eliminate the claw-back of federal child benefits from the lowest income Ontario families with children.

The failure of the government to act in the Child Benefit claw-back speaks volumes. The budget devotes half a page — out of a total of 20 — to congratulating itself for passing through the Child Benefit increases since it took office, conveniently ignoring the fact that the claw-back instituted by the Harris and Eves governments which it campaigned against is still in place.

Here's how the fiscal sleight of hand works.

In 2005–6, Ontario received $2.3 billion more in revenue than was forecast at budget time. Debt service costs turned out to be $700 million less than was forecast at budget time. That produces a turn-around in fiscal room available of $3 billion.

$2.1 billion of that increase in fiscal room was allocated to the year-end spending that forms the primary substance of the 2006–7 budget. The rest — along with some unused reserve funds — was used to reduce the deficit from a planned $2.8 billion to $1.4 billion.

The result is that the government gets to continue its gradual deficit reduction plan. And it gets to build a substantial spending program into this year's budget that doesn't use up any of this year's fiscal room. That extra room will be available next year, to pay for a repeat of this year's budget strategy, just in time to provide both election goodies and a budget balanced ahead of time.

Accounting, Transparency, P3s and Capital Financing

The government talks incessantly about transparency in Ontario's finances. Its latest transparency enhancing initiative is to consolidate the accounts of hospitals, school boards and community colleges into the provincial budget. This is the third year in a row that substantial changes in accounting have been introduced at budget time, making it difficult for Ontarians to compare the figures from budget to budget. And for the first time in more than a decade of changes in provincial government accounting practices in Ontario, the government has chosen not to provide re-stated figures for previous years.

That means it is impossible to compare this year's budget figures with figures for any previous budget, including the original 2005–6 budget introduced last May.

One interesting effect of the accounting change, however, is that Ontario can now amortize its capital expenditures on hospitals, elementary and secondary schools and community colleges on the same basis as it now amortizes expenditures on provincial highways. And by enabling the government to spread its capital financing costs over time rather than accounting for them all at once, the consolidation of accounts for hospitals, school boards and community colleges, in turn, eliminates the only shred of a political justification for using outrageously expensive P3s to finance these institutions' infrastructure investments.

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