ONTARIO: 2015 BUDGET

Ongoing doubt about balancing the books

HIGHLIGHTS

- The budget is still slated to be balanced in 2017–2018.
- To get there, the Ontario government is relying on putting a cap on program spending over the next three years, at around $120.5B. An ambitious goal, all in all.
- The Ontario government will sell off certain assets, including floating about 15% of shares in Hydro One in an initial public offering.
- Ontario plans to raise the amount allocated to financing public infrastructures.
- Among other efforts, additional amounts will go to the Ontario Youth Jobs Strategy, a 1% increase in the rate of assistance for adult Ontario Works recipients and the disabled, and improving home care and community care services.

Table 1
Summary statement of transactions

	Actual	*Projections*			
In $B	2013–2014	2014–2015	2015–2016	2016–2017	2017–2018
Total revenues	**115.9**	**118.5**	**124.4**	**129.4**	**134.4**
- Variation (%)	2.2	2.2	5.0	4.0	3.9
Program spending	**-115.8**	**-118.8**	**-120.5**	**-120.6**	**-120.0**
- Variation (%)	3.1	2.6	1.4	0.1	-0.5
Debt charges	**-10.6**	**-10.7**	**-11.4**	**-12.4**	**-13.2**
- Variation (%)	2.9	0.9	6.5	8.8	6.5
Debt charges	**-126.4**	**-129.5**	**-131.9**	**-133.0**	**-133.2**
- Variation (%)	3.1	2.5	1.9	0.8	0.2
Reserve	---	---	-1.0	-1.2	-1.2
Budgetary balance	**-10.5**	**-10.9**	**-8.5**	**-4.8**	**0.0**
Net debt	**267.2**	**284.1**	**298.9**	**311.5**	**319.5**
- In % of GDP	38.4	39.4	39.8	39.8	39.2

Sources: Ontario Ministry of Finances and Desjardins, Economic Studies

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THE BUDGET WILL NOT BE BALANCED BEFORE 2017–2018

The Ontario government is staying on track with the financial projections in its 2015 budget. Growth by budgetary revenue and expenditures forecast for upcoming fiscal years is very consistent with what was set out in the 2014 budget. The same applies to the budget balance; the projections published today are similar to those set out in the previous budget. For example, an $8.5B deficit is now expected for 2015–2016; the target was $8.9B in the 2014 budget. For 2016–2017, the deficit currently projected ($8.5B) is just $400M less than the deficit projected last year. The books are still forecast to be balanced in 2017–2018.

Because they are similar to last year's, the 2015 budget's financial projections have the same flaw. Yes, the Ontario government expects to return to a balanced budget in 2017–2018 but, to get there, it is relying on practically zero growth in program spending in 2016–2017, and a 0.5% decrease in 2017–2018. Program spending could therefore hold steady at around $120.5B for the next three years. However, we wonder whether the Ontario government will actually manage to curb program spending growth this sharply. Historically, it has been very difficult to limit growth by program spending to this extent. Over the last 15 years (1999–2000 to 2013–2014), program spending has increased by an average of 5.0% a year. Clearly, the balanced budget target could be compromised if the government were unable to restrict spending as anticipated. That being said, the Ontario government has shown its mettle recently, substantially reining in program spending in 2011–2012 and 2012–2013, with annual changes of 0.9% and -0.4% respectively.

The existence of fairly large deficits in upcoming fiscal years means that the Ontario government's debt will keep rising. At $267.2B as at March 31, 2014, Ontario's net debt should hit $319.5B as at March 31, 2018. The province's net debt to GDP ratio could be as high as 39.2% as at March 31, 2018. In comparison, Quebec's net debt to GDP ratio is forecast to slide to 46.3% as at March 31, 2018 (from 50.7% as at March 31, 2015). The gap between the two province's debt loads should therefore keep closing.

THE SALE OF ASSETS WILL MAKE IT POSSIBLE TO BOOST INFRASTRUCTURE INVESTMENT

Despite the tough financial context for the budget, with his 2015 budget, the Minister of Finance is putting forward several new initiatives to facilitate Ontario's growth. That being said, the price tag for the new measures is relatively modest, a good thing given the scope of the ongoing deficits. The budget also contains some announcements that have little impact on the budget balance, such as an increase in infrastructure spending, to be financed by proceeds from the sale of certain assets, among other things. Here is an overview of the key measures contained in the 2015 budget:

- On February 4, 2015, the province wrapped up the sale of its remaining 36.7 million common GM shares for $1.55B, for a financial gain of $1.08B. This gain, including the additional $200M generated above the target set in 2014, was allocated to the Trillium Trust. The province also put the $249M in net proceeds from its September 2013 sale of 10 million GM shares into the Trillium Trust. This means the Trillium Trust now has $1.35B to invest in Ontario's roads, bridges and public transit.
- Ontario is putting a plan into action to unlock the value of certain provincial assets, such as the lands on which the head office of the Liquor Control Board of Ontario (LCBO) is located, the building where Ontario Power Generation (OPG) is headquartered, and the Seaton and Lakeview lands. The government intends to increase the number of Hydro One shareholders, by floating 15% of shares in an initial public offering, among other things. The province intends to retain 40% of its common shares in Hydro One and is proposing passing a law to prevent any shareholder or group of shareholders from owning more than 10% of the shares.
- Unlocking the value of certain provincial assets could add $2.6B to the financing Ontario puts toward projects pertaining to public transit, roads, schools, healthcare institutions, post-secondary educational institutions and other assets, taking it to $31.5B over a 10-year period.

2015: economic growth above the national average

Since mid-2014, Ontario has stood out with fairly robust economic growth, as the province is being especially favoured by the spinoffs of lively U.S. demand and Canadian dollar depreciation. Ontario's real GDP growth is forecast to beat the national average in 2015.

Ontario is also being less affected by the adverse consequences of the drop in oil prices. This has a particular impact on the province's nominal GDP growth, which should rise just over 4% in 2015. By comparison, an increase of just 1.5% is expected for Canada as a whole. This divergence will of course be good for growth by the Ontario government's budgetary revenues, which could maintain a solid pace.

Table 2
Economic and financial forecasts

	2014		2015f		2016f	
Variation in %	2014 Budget	2015 Budget	2014 Budget	2015 Budget	2014 Budget	2015 Budget
Real GDP	2.1	2.2	2.5	2.7	2.5	2.4
Nominal GDP	3.5	3.6	4.4	4.2	4.4	4.2
Employment	1.1	0.8	1.5	1.1	1.6	1.3
U.S. real GDP	2.7	2.4	3.0	3.1	2.9	2.9
Canadian dollar (US¢)	90.0	90.5	91.0	79.5	92.0	80.0
Treasury bills – 3-month	1.0	0.9	1.3	0.6	2.4	1.1
Federal bonds – 10-year	2.8	2.2	3.5	1.8	3.9	2.7

f: forecasts
Source: Ontario Ministry of Finances

- The Ontario government is investing an additional $200M in the Jobs and Prosperity Fund so as to attract more investment from businesses that will spur innovation and create jobs. The total amount in the Fund will go to $2.7B over 10 years, and eligibility is being extended to forestry.
- Ontario will invest an additional $250M over the next two years in the Ontario Youth Jobs Strategy.
- The Ministry of Finance is planning a 1% increase to the rate of social assistance for adult Ontario Works recipients and disabled people who receive benefits from the Ontario Disability Support Program.
- The government is improving home care and community care services by increasing its investment by an average of 5% a year, for more than $750M over the next three years.
- Ontario is bolstering employer pension plans and will set up the Ontario Retirement Pension Plan in 2017 to give Ontario's workers more financial security upon retirement.

NUMEROUS UNCERTAINTIES PERSIST

Given the ongoing budget deficits, the Ontario government was fairly limited in its selection of new measures. Nonetheless, the Minister of Finance emphasized an acceleration of infrastructure spending. The advantage of this measure is that it will have little impact on balancing the books, as it will be financed by the sale of certain assets and perhaps an increase to the debt. It will, however, have a substantial impact on Ontario's economy by stimulating jobs and production.

Like last year, a number of uncertainties loom over the 2015 budget's financial projections. It is far from certain that the Ontario government will manage to stabilize its program spending for three years—the main assumption on which the balanced budget plan is based. Moreover, the risks surrounding the economic projections are sizable, both worldwide and in Canada. In addition, the contagion effects generated by the drop in oil prices could have a bigger impact on Ontario than anticipated.

In this context, the appointment of Stephen LeClair as Ontario's first Financial Accountability Officer is very timely. The Financial Accountability Officer is charged with putting an independent analysis of the province's financial situation, particularly the Ontario budget, before the legislature, and examining provincial and national economic trends. Clearly, such a contribution will be very useful in keeping an informed eye on the Ontario government's financial situation over the next few years. In closing, we can only suggest that other provinces follow suit with such an appointment.