

December 9, 2003

Fiscal Background

Revenue Improvements: The fiscal turnabout is due to higher than anticipated transfers from Ottawa and an improvement in Ontario's own source revenues. (See Public Accounts of Ontario 2002/03, released on November 21, 2003.) The public accounts show transfers and tax revenues were more than \$2.2-billion higher than expected last year and totaled \$68.609-billion. Mr. Peters' forecast revenues to be \$67.2-billion this year. However, at no time in the last decade has the government's own source revenues declined from one year to the next.

The CTF arrived at its conclusions using very modest assumptions. Our modeling assumed real economic growth to be 1.7 per cent this year. When the 2003/04 Budget was delivered in March, the previous government assumed 3.0 per cent growth, and Mr. Peters pegged growth at 1.8 per cent. In addition, our revenue forecasts were adjusted downward to address the revenue concerns cited in Mr. Peters' report. Using these prudent measures, under our forecast the government's own source revenues will grow by a very modest \$84-million this year over the previous year.

In addition, we also included \$80-million in higher than anticipated SARS funds from Ottawa and one-third of \$771-million CHST enrichment announced in the federal economic update. As a result of the improved revenue picture and these changes, federal transfers should total \$10.491-billion and Ontario's own source revenues will be \$59.799-billion for a total of \$70.290-billion in 2003/04.

Spending Changes & Accounting Tricks: Despite promising to control a \$2-billion budgetary shortfall, the Liberal government has done very little except raise taxes. They continued a hiring freeze implemented by the former government, but have not yet fulfilled their campaign promise to control spending. By failing to record any of the \$771-million health care transfer this fiscal year, the Liberals are making the province's fiscal situation appear worse than it actually is.

Bottom Line: There will be a small gap between revenues and expenditures this year assuming the Liberals do not increase spending. Modest cost containment together with higher than expected revenues will enable the government to balance the budget in short order.

"The Liberal government has overplayed its hand. It commissioned an independent review of the finances and was told the province faced a potential \$5.6-billion shortfall," said Williamson. "Mr. Peters pegged spending at \$72.1-billion this year and his forecast assumed the government would do nothing to control costs. Instead of working to whittle the shortfall down, the government has talked the deficit up and done little to control spending."

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