Balancing the budget and helping out small businesses

- Ontario government to balance its budget this year and the next two years.
- Small businesses get some help, including a cut in the corporate income tax rate.
- The profile for the province’s net debt-to-GDP ratio improves slightly thanks to stronger expected economic growth.

On track to balance the books this year…

In his fall economic statement, Ontario Finance Minister Charles Sousa yesterday confirmed that his government is on track to balance its books this fiscal year and in the following two years. This upholds a long-standing commitment made in Budget 2010. And it turns out that the final stage of this seven-year journey isn’t quite as daunting as previously thought. The gap to close this year was made smaller by last year’s deficit coming in well below forecast. The public accounts for 2016-17 showed a deficit of just $991 million (0.1% of GDP) or roughly one-quarter the deficit of $4.3 billion projected in Budget 2016. Thanks to a strong economy, revenues came in $2.2 billion higher than originally forecasted and expenditures $0.1 billion lower. The revenue and expenditure projections presented in yesterday’s budget update look different than those in Budget 2017 but this is mostly because the government adopted a new line-by-line reporting standard for third-party organizations in the health and education sectors (previously, revenues and expenditures were netted out). When accounting for the switch to the new reporting standards, the paths for revenues and expenditures are, in fact, little changed from the projections shown in March. Actual revisions are small ($0.1 billion to $0.2 billion) and fully offsetting, leaving bottom lines unchanged throughout the three-year fiscal plan to 2019-20.

…although the auditor general differed in opinion about last year’s deficit

It’s important to note, however, that Ontario’s auditor general gave a qualified audit opinion on the 2016-17 accounts because of a disagreement over the recording of public sector pension fund surpluses and market assets, and liabilities of the Independent Electricity System Operator. The auditor general estimates that the 2016-17 deficit of $991 million is underestimated by $1.4 billion and the net debt by $12.4 billion.

Small businesses get some help

Minister Sousa announced that his government will provide $500 million in various measures over three years to help small businesses deal with the impact of a sharp 29% increase in the minimum wage by 2019. The province’s minimum wage rate is set to rise from $11.60 per hour to $14.00 per hour on January 1, 2018, and $15.00 per hour on January 1, 2019. The main measure benefiting small businesses is a reduction in the small business corporate income tax rate from 4.5% to 3.5% on January 1, 2018. This will cost the government $270 million in lost revenues over three years—although this will be partly offset by the winding down of the apprenticeship training tax credit (adding $170 million to...
revenues). Another measure benefiting small businesses is $124 million over three years in incentives to hire and retain young workers aged 15 to 24.

Other spending initiatives benefiting early childhood and seniors
Yesterday’s statement also includes additional spending on early childhood and childcare ($425 million over three years) and seniors ($150 million over three years).

The province’s debt ratio eases a little…
Ontario’s net debt profile remains unchanged from Budget 2017 (the government is sticking with its interpretation of accounting rules on the disputed points with the auditor general). Yet stronger expected economic growth will result in a small downward revision of 0.2 percentage points to the province’s net debt-to-GDP ratio through 2019-20. The ratio is revised to 37.3% in 2017-18, 37.1% in 2018-19 and 37.0% in 2019-20. The fall economic statement also reiterated the Ontario government’s commitment to lower the net debt-to-GDP ratio to 35% by 2023-24 (interim target) and by 27% by 2029-30 (longer term target).

…and so does the long-term public borrowing
The government lowered its current outlook for public borrowing this year by $0.6 billion to $25.8 billion. The outlook for the next two years remains unchanged at $32.2 billion and $37.8 billion, respectively.

Missed opportunity?
Even though it was widely expected, the Ontario government’s confirmation that it is on track to balance its budget and nudge its debt-to-GDP ratio down slightly was good to hear. Anything less than that, in fact, would have been a huge disappointment considering the vibrancy of the provincial economy and nearly accomplished zero-deficit mission in 2016-17. Still, we feel that there was an opportunity to be a little more aggressive on reducing the weight of Ontario’s debt. Our view is that the government should take full advantage of good economic times such as these to ‘retool’ its fiscal tool more quickly. It’s also about the divergences of opinion between the government and the auditor general. The auditor general’s qualified opinion on the 2016-17 accounts and criticism of the accounting methodology for the 25% electricity rebate implemented this summer—outlined in a report last month—raise the spectre that Ontario’s true debt may be higher than reported. Time (or expert accountants) will tell whether it is or not the case but we believe that the government would do well to get ahead of this issue and accelerate its march toward its long-term debt-to-GDP ratio target.

Ontario’s fiscal plan

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<td>141.7</td>
<td>150.1</td>
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<tr>
<td>Total expenditures</td>
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<td>141.1</td>
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<td>Interest on public debt</td>
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<td>12.2</td>
<td>12.7</td>
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<tr>
<td>Reserve</td>
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Source: Ontario Ministry of Finance

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