



Office of the Auditor General of Ontario

Review of the Pre-Election 2022 Multi-Year Fiscal Plan



May 2022



Office of the Auditor General of Ontario

To the Honourable Speaker of the Legislative Assembly

I am pleased to transmit my *Review of the Pre-Election 2022 Multi-Year Fiscal Plan* that was included in the *2022 Ontario Budget* for submission to the Legislative Assembly in accordance with the provisions of Section 13 of the *Fiscal Sustainability, Transparency and Accountability Act, 2019*.

A handwritten signature in black ink, reading "Bonnie Lysyk".

Bonnie Lysyk, MBA, FCPA, FCA, LPA
Auditor General

May 2, 2022
Toronto, Ontario

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ISBN 978-1-4868-6129-3 (PDF)

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Review of the Pre-Election 2022 Multi-Year Fiscal Plan

1.0 Summary

As part of the *2022 Ontario Budget*, the Government of Ontario released its Multi-Year Fiscal Plan on April 28, 2022. The fiscal plan provides Ontarians with information about the Province's projected finances for the year of the budget and the following two years.

The *Fiscal Sustainability, Transparency and Accountability Act, 2019* (Act) requires my Office to review the estimates, forecasts and assumptions in the Multi-Year Fiscal Plan and release a statement describing the results of our work. With this report, I fulfil those responsibilities.

Based on our work, I have concluded that the Multi-Year Fiscal Plan for the years ending March 31, 2023, 2024, and 2025 included in the *2022 Ontario Budget* is a reasonable presentation of Ontario's finances, with the exception of an understatement of provincial revenue from corporate tax for each of the three years. As well, contingency funds recorded in Other Program Expenses for the three-year period appear to be overly cautious.

Section 4(1) under this Act sets a deadline of March 31 annually for the Minister of Finance to release a budget. However, in March 2022, legislation was passed to amend Section 4(1) of the Act allowing the government to issue its 2022 Budget by April 30 instead of March 31. My Office was informed of this change and confidential information-sharing arrangements were put in place by the Ministry of Finance for us to be able to plan, conduct and complete our work so that this report could be tabled with the Legislature prior to the start of the election period.

This year's Multi-Year Fiscal Plan presents information on Ontario's finances for the fiscal years ending March 31, 2023, 2024 and 2025. My examination does not provide comment on the financial information for the fiscal year ending March 31, 2022. That information will be reviewed later this year as part of our audit of the Province's consolidated financial statements. The audited consolidated financial statements for that fiscal year, including my audit opinion, are required to be released by the Province no later than September 27, 2022.

As part of the Multi-Year Fiscal Plan, the government must provide estimates of Ontario's revenues and expenses during the period of the fiscal plan, the forecasts and assumptions used to prepare the estimates, a reserve to protect it against unexpected changes in the Province's revenue and expenses, a comprehensive discussion of the risks that have a material impact on the economy, a description of the effects of the fiscal plan on the province, and information about the projected ratio of provincial net debt to gross domestic product (GDP).

A stated principle in the Act is that the government's fiscal policy should be based on cautious assumptions. However, our Office found that the estimates for corporate tax revenues appear to be overly cautious and are

understated when using the most recent available economic projections. The understated estimates of provincial revenue from corporate tax in the fiscal plan are as follows:

- for the year ending March 31, 2023, corporate tax revenue of \$19.7 billion is understated by between \$1.5 billion and \$3.4 billion;
- for the year ending March 31, 2024, corporate tax revenue of \$20.4 billion is understated by between \$1.9 billion and \$3.9 billion; and
- for the year ending March 31, 2025, corporate tax revenue of \$21.1 billion is understated by between \$2.1 billion and \$4.2 billion.

When revenues are underestimated, the perception can be that the government has less funds available for decision-making than can be reasonably expected.

While cautious assumptions are required, the amount budgeted for contingencies appears overly cautious. Given the nature of contingency funds, it is challenging to assess their reasonableness. We found that most of the \$19.4 billion budgeted contingency funds included in Other Program Expenses in the Multi-Year Fiscal Plan for the three fiscal years ending March 31, 2025, have not been earmarked for specific purposes. We noted that the amount not earmarked was roughly 67% for the year ending March 31, 2023 (84% in 2024 and 87% in 2025). Further, the contingency funds of \$19.4 billion (\$4.6 billion in 2023; \$6.6 billion in 2024; and \$8.2 billion in 2025) are significantly larger than the three-year contingency amounts set aside in previous Ontario budgets. When expenses are overestimated, the perception can be that the government has less funds available for decision-making than can be reasonably expected.

We concluded that the assumptions used to prepare the Multi-Year Fiscal Plan are consistent with the plans of the Government of Ontario as reflected in the *2022 Ontario Budget*. The fiscal plan has been prepared on a basis consistent with the Act and consistent with the standards and guidance from the Chartered Professional Accountants of Canada.

Aside from an underestimation of provincial revenues from corporate tax and overly cautious contingency funds, we found that the government bases its estimates of its other revenues, program expenses and interest on debt on cautious assumptions, as required by the Act. The government also shows prudence by including a reserve amount in its fiscal plan, again as required by the Act.

The reader should keep in mind that the actual financial results for the fiscal years ending on March 31, 2023, 2024 and 2025 will differ from the Multi-Year Fiscal Plan estimates because of the unpredictability of the impact of future events. There remains considerable uncertainty surrounding the world's recovery from the COVID-19 pandemic, the global economic repercussions of Russia's invasion of Ukraine, and heightened inflation and supply chain disruptions. Ontario's economic performance also could be undermined by housing-price and interest-rate volatility, given the high level of household debt in the province.

We identified the following two areas where the risk of future uncertainty is high and could result in significant differences between estimated and actual spending:

- actual compensation costs may differ significantly from estimates due to the undeterminable results of future contract negotiations; and
- the costs of increased spending on new programs as announced by the government may differ significantly from estimates because there is no program history to inform the estimates.

These and other risks that could result in differences between forecast and actual results are discussed in **Section 5.0**.

2.0 The Independent Auditor General's Statement

The Auditor General's Statement on Ontario's Multi-Year Fiscal Plan Presented in the 2022 Ontario Budget (Pre-Election Budget)

To the Legislative Assembly of the Province of Ontario

I am required by subsection 13(1) of the *Fiscal Sustainability, Transparency and Accountability Act, 2019* (Act) to promptly review and report on the reasonableness of the Multi-Year Fiscal Plan included in the 2022 Ontario Budget issued on April 28, 2022.

I have examined the support provided by the government for its assumptions, its estimates and forecasts of revenues and expenses, details of the reserves and the ratios of provincial net debt to Ontario's gross domestic product (GDP) for the three fiscal years ending March 31, 2023, March 31, 2024 and March 31, 2025.

Responsibilities

The Ministry of Finance and Treasury Board Secretariat are responsible for preparing the information contained in the Multi-Year Fiscal Plan on behalf of the Government of Ontario in accordance with the requirements of the Act and the applicable standards and guidance established by the Chartered Professional Accountants of Canada.

The Treasury Board, as those charged with governance, are responsible for overseeing the Ministry of Finance and Treasury Board Secretariat's preparation of the Multi-Year Fiscal Plan.

The Office of the Auditor General is an independent office of the Legislative Assembly as per the *Auditor General Act*. As Auditor General, my responsibility is to issue a statement on the reasonableness of the Multi-Year Fiscal Plan. My examination was made in accordance with *Canadian Standards on Assurance Engagements—Direct Engagements* issued by the Auditing and Assurance Standards Board of the Chartered Professional Accountants of Canada.

I have no responsibility to update this report for events and circumstances occurring after the date of my report.

Statement on Reasonableness

In my opinion, the Multi-Year Fiscal Plan is a reasonable presentation of Ontario's finances for the years ending March 31, 2023, March 31, 2024 and March 31, 2025, except for understated estimates of provincial revenue from corporate tax in each of the three years. As well, contingency funds included in Other Program Expenses appear to be overly cautious. The forecast annual deficits and ratios of provincial net debt to Ontario's GDP for the years ending March 31, 2023, March 31, 2024 and March 31, 2025, are also reasonable, except for the impact of the understated estimates of provincial revenue from corporate tax.

Understatement of Estimates of Provincial Revenue From Corporate Tax

The 2022 Multi-Year Fiscal Plan understated estimates of provincial revenue from corporate tax are as follows:

- for the fiscal year ending March 31, 2023, corporate tax revenue of \$19.7 billion is understated by between \$1.5 billion and \$3.4 billion;
- for the fiscal year ending March 31, 2024, corporate tax revenue of \$20.4 billion is understated by between \$1.9 billion and \$3.9 billion; and
- for the fiscal year ending March 31, 2025, corporate tax revenue of \$21.1 billion is understated by between \$2.1 billion and \$4.2 billion.

Impact of Understatement of Estimates of Provincial Revenue From Corporate Tax on Annual Deficit and Net Debt to GDP

Adjusting for this understatement would decrease the projected annual deficit for each year and cumulatively decrease the related net debt to GDP percentage as follows:

- for the fiscal year ending March 31, 2023, the projected annual deficit of \$19.9 billion would decrease to between \$16.5 billion and \$18.4 billion and net debt to GDP of 41.4% would decline by between 0.1% and 0.3%;
- for the fiscal year ending March 31, 2024, the projected annual deficit of \$12.3 billion would decrease to between \$8.4 billion and \$10.4 billion and net debt to GDP of 41.4% would decline by between 0.3% and 0.7%; and
- for the fiscal year ending March 31, 2025, the projected annual deficit of \$7.6 billion would decrease to between \$3.4 billion and \$5.5 billion and net debt to GDP of 41.3% would decline by between 0.4% and 1.0%.

Overly Cautious Contingency Funds in Other Program Expenses

Contingency funds of \$19.4 billion are included in Other Program Expenses in the Multi-Year Fiscal Plan as follows: \$4.6 billion, \$6.6 billion and \$8.2 billion for the fiscal years ending March 31, 2023, 2024 and 2025, respectively. This contingency is significantly larger than any three-year amount set aside in Other Program Expenses in previous Ontario budgets. Given the nature of contingency funds, it is challenging to assess their reasonableness. Most of the budgeted contingency funds of \$19.4 billion have not been earmarked for specific purposes. Of this, unearmarked funds of approximately \$15.7 billion remain available to address potential future expenses over the next three years (2023 – \$3.1 billion, 2024 – \$5.5 billion and 2025 – \$7.1 billion). While cautious assumptions are required, the amounts budgeted for contingencies appear to be overly cautious.

Other Comments on Examination Results

- **Appendix 1** outlines the results of my examination of the Multi-Year Fiscal Plan in relation to my objective and criteria. The assumptions used to prepare the Multi-Year Fiscal Plan are consistent with the plans of the government as reflected in the *2022 Ontario Budget*. With the exception of the items noted in the above statement on reasonableness, all significant assumptions in the Multi-Year Fiscal Plan are suitably supported, and the estimated revenues and all other estimated expenses for the three fiscal years reflect

the use of such assumptions. These assumptions provide a reasonable basis for estimating revenues and all other expenses, keeping in mind that the degree of uncertainty increases for projections further in the future.

- In estimating projected expenses, the government focused on maintaining historical funding levels, while providing for increases due to inflation, and while also managing internal financial pressures. We noted that supporting documentation prepared by Ministries was not as detailed as the information used to support the previous Pre-Election Report in 2018. However, for transfer payment programs, we were able to assess and conclude on the reasonableness relative to the historical level of funding, adjusted for inflationary increases and the financial impact of newly announced programs.
- Funds provided by government for programs are determined as a matter of policy. Our review does not provide assurance on service outcomes that would be achieved by a set level of funding.
- The Multi-Year Fiscal Plan has been prepared on a basis that is consistent with the Act and the applicable standards and guidance established by the Chartered Professional Accountants of Canada.

Because the revenue, expense and annual deficit estimates are based on assumptions regarding future events, actual results will vary from the information presented, and the variations may be significant. Accordingly, I express no opinion as to whether these estimates will be achieved.



Toronto, Ontario
May 2, 2022

Bonnie Lysyk, MBA, FCPA, FCA, LPA
Auditor General of Ontario

3.0 Background

The *Fiscal Sustainability, Transparency and Accountability Act, 2019* (Act) replaced the *Fiscal Transparency and Accountability Act, 2004* and sets out a number of legislative requirements for both Ontario's fiscal policies and its fiscal plan. The Act identifies five principles that govern Ontario's fiscal policy. These principles are:

- Sustainability – consideration should be made to the government's financial position, including the provincial net debt burden, over the long term;
- Transparency – information should be readily available to the public and clearly articulated;
- Responsibility – cautious assumptions should be used;
- Flexibility – recognition of the need to respond to changing circumstances; and
- Equity – impact on different groups and future generations should be considered.

The Act also requires that a budget, which includes a multi-year fiscal plan, must be released by the Province prior to March 31 each year. Specific to the *2022 Ontario Budget*, the government passed legislation in March 2022 to extend the budget issuance deadline from March 31 to April 30, 2022. My Office was informed of this change and confidential information-sharing arrangements were put in place by the Ministry of Finance for us to be able to plan, conduct and complete our work so that this report could be tabled with the Legislature prior to the start of the election period.

The following information must be included as part of a multi-year fiscal plan:

- an estimate of Ontario's revenues and expenses for the period of the plan, including estimates of the major components of these revenues and expenses;
- the forecasts and assumptions used to prepare the revenue and expense estimates for the period of the plan;
- a reserve to provide for unexpected adverse changes in revenues and expenses, in whole or in part, and the details of the reserve;
- a comprehensive discussion of risks that may have a material impact on the economy or the public sector during the period of the plan;
- a description of the intended effects of the plan on the province; and
- information about the ratio of provincial net debt to Ontario's gross domestic product (GDP).

One change from the previous *Fiscal Transparency and Accountability Act, 2004* to the *Fiscal Sustainability, Transparency and Accountability Act, 2019* is that the Province is no longer required to produce a pre-election report separate from the budget. The Act requires the Office of the Auditor General of Ontario to provide a statement on the reasonableness of the multi-year fiscal plan included in the most recent budget prior to an election.

This year marks the fourth statement on reasonableness issued by the Office of the Auditor General since the *Fiscal Transparency and Accountability Act* came into effect in 2004.

4.0 Objective and Scope

The objective of our examination is set out in subsection 13(1) of the Act, which states, "Before a general election under subsection 9(2) of the *Election Act*, the Auditor General shall review the multi-year fiscal plan included in the most recent budget to determine whether it is reasonable, and shall release a statement describing the results of the review."

Auditors usually examine information relating to financial transactions that have already occurred. In contrast, the multi-year fiscal plan provides the Province's estimates of future fiscal results. We therefore conducted

our work and reported on the results of our examination in accordance with the applicable Canadian Standards on Assurance Engagements – Direct Engagements issued by the Auditing and Assurance Standards Board of the Chartered Professional Accountants of Canada (CPA Canada). Our criteria for this examination (see **Appendix 1**) were developed using guidance for future-oriented financial information issued by CPA Canada. In addition, we reviewed the guidance provided by the American Institute of Certified Public Accountants relating to preparing and examining financial forecasts and projections. This guidance calls for forecasts of future-oriented financial information to be based on reasonable, supportable and internally consistent assumptions that management believes reflect the most probable set of economic conditions and planned courses of action.

In conducting our work, we assessed reasonableness through inquiry, analysis and other procedures, including examination of the Province’s supporting documentation for the estimates and for the key assumptions underlying them. We also reviewed the government’s multi-year planning and budget processes, assessed historical trend data, and met with Ministry of Finance and Treasury Board Secretariat officials, as well as officials from other ministries, regarding the Province’s expenditure forecasts and related assumptions.

Typically, we would perform our work after a pre-election budget has been issued. Due to the changed deadline for the Province to issue the budget from March 31 to April 30, the process we used to review this multi-year fiscal plan was different from previous pre-election reviews. However, given the new deadline, we would not have had enough time to issue a pre-election report prior to the dissolution of the Legislative Assembly. Therefore, we started our work in mid-March 2022 and were provided secured and confidential access to the required information.

Because the Province develops the estimates for its future taxation revenues using forecasting techniques based on underlying economic data—such as growth in the gross domestic product, inflation, corporate net operating surplus, consumer spending, and wage and salary levels—we engaged an independent expert in the area of econometric forecasting to assist us in our review of certain tax revenue estimates.

The Office of the Auditor General of Ontario applies the Canadian Standards of Quality Control and, as a result, maintains a comprehensive quality control system that includes documented policies and procedures with respect to compliance with rules of professional conduct, professional standards and applicable legal and regulatory requirements.

The Province provided us with a statement of responsibility that would have previously been included at the beginning of its pre-election report. Because the *Fiscal Sustainability, Transparency and Accountability Act, 2019* does not require the government to prepare a separate pre-election report from the budget, the statement on responsibility has been included in **Appendix 2** of our report.

Funds provided by government for programs are determined as a matter of policy. Our review does not provide assurance on service outcomes that would be achieved by a set level of funding.

5.0 Results

5.1 Ontario’s Medium-Term Fiscal Plan

The 2022 Multi-Year Fiscal Plan shows Ontario’s medium-term fiscal plan, which includes the Province’s forecast revenue and expense items in detail.

In **Figure 1**, we replicated (with slight modification) the details of Ontario’s Medium-Term Fiscal Plan from page 7 of the 2022 *Ontario Budget*.

Figure 1: Provincial Government's Multi-Year Fiscal Plan for Ontario (\$ billion)

Sources of data: 2022 Ontario Budget and the Office of the Auditor General of Ontario

	2022/23	2023/24	2024/25
Revenue			
Personal income tax	44.6	47.0	49.6
Sales tax	32.3	34.2	35.7
Corporate tax	19.7	20.4	21.1
Ontario Health Premium	4.7	4.9	5.1
Education property tax	5.7	5.6	5.6
All other taxes	19.4	21.0	21.9
Total Taxation Revenue	126.4	133.2	139.1
Government of Canada	31.0	31.8	33.4
Income from Government Business Enterprises	6.3	6.7	7.5
Other non-tax revenue	16.1	16.5	16.9
Total Revenue	179.8	188.2	196.9
Expenses¹			
Health sector	75.2	77.6	78.3
Education sector ²	32.4	34.2	35.1
Post-secondary education sector	10.8	11.1	11.4
Children's and social services sector	18.3	18.4	18.6
Justice sector	5.3	5.2	5.1
Other programs ³	36.3	38.3	39.7
Total Base Programs	178.3	184.8	188.1
COVID-19 time-limited funding	6.9	-	-
Total Programs	185.2	184.8	188.1
Interest on debt	13.5	14.3	14.9
Total Expense	198.6	199.1	203.0
Surplus/(Deficit) before reserve	(18.9)	(10.8)	(6.1)
Reserve	1.0	1.5	1.5
Surplus/(Deficit)	(19.9)	(12.3)	(7.6)
Net Debt	428.7	450.4	468.8
GDP – Nominal	1,035.6	1,088.6	1,134.1
Net Debt as a % of GDP	41.4%	41.4%	41.3%
Net Debt as a % of Revenue	238.4%	239.3%	238.1%
Interest on Debt as a % of Revenue	7.5%	7.6%	7.5%

Note: Numbers may not add due to rounding. This table is based on Ontario's Medium-Term Fiscal Plan (pg. 7 of the 2022 Ontario Budget).

1. For presentation purposes in the 2022 Budget, one-time COVID-19-related spending has been included within COVID-19 Time-Limited Funding.

2. Excludes Ontario Teachers' Pension Plan. Ontario Teachers' Pension Plan expense is included in Other Programs.

3. Contains contingency funds amounts as follows: 2022/23 – \$4.6 billion, 2023/24 – \$6.6 billion and 2024/25 – \$8.2 billion.

5.2 Revenue Estimates

5.2.1 Revenue Components

Table 3.5 of the 2022 Ontario Budget has been expanded in **Figure 2** to show expected government revenues for the next three fiscal years. The following is a list of the major sources of revenue (the percentages relate to the fiscal year ending March 31, 2023):

- taxation revenues (70% of total revenues);
- transfers received from the Government of Canada (17%);
- revenues from Government Business Enterprises, such as income from the Liquor Control Board of Ontario, the Ontario Lottery and Gaming Corporation, Ontario Cannabis Retail Corporation, Ontario Power Generation and the Province's share of Hydro One (4%); and
- other revenues, such as those received for driver and commercial vehicle registration fees and sales and rentals (9%).

Figure 2: Provincial Government's Revenue Estimates for Fiscal Years 2022/23–2024/25 (\$ billion)

Sources of data: 2022 Ontario Budget, Table 3.5 and the Office of the Auditor General of Ontario

	2022/23	2023/24	2024/25
Revenue			
Personal income tax	44.6	47.0	49.6
Sales tax	32.3	34.2	35.7
Corporate tax	19.7	20.4	21.1
Ontario Health Premium	4.7	4.9	5.1
Education property tax	5.7	5.6	5.6
All other taxes ^{1,2}	19.4	21.0	21.9
Total Taxation Revenue	126.4	133.2	139.1
Canada Health Transfer	17.6	19.1	20.1
Canada Social Transfer	6.2	6.4	6.6
Infrastructure programs	1.2	1.1	0.9
Labour market programs	1.1	0.9	0.9
Social Housing Agreement	0.3	0.2	0.2
Other federal payments ^{3,4,5}	4.1	3.6	4.2
Direct transfers to broader-public-sector organizations	0.5	0.5	0.5
Total Government of Canada Revenue	31.0	31.8	33.4
Income from Government Business Enterprises	6.3	6.7	7.5
Other non-tax revenue	16.1	16.5	16.9
Total Revenue	179.8	188.2	196.9

Note: Numbers may not add due to rounding.

1. Reflects a reduction of gas and fuel taxes of \$0.6 billion in 2022/23 for the government's budgeted temporary cut to gas and fuel tax rates.
2. Includes land transfer tax revenues of \$0.2 billion in 2022/23, \$0.2 billion in 2023/24 and \$0.2 billion in 2024/25 for the government's announced strengthening of the non-resident speculation tax.
3. Includes additional one-time funding through Bill C-17, an Act respecting additional COVID-19 measures, of \$0.8 billion in 2022/23.
4. Includes additional municipal transit funding of \$0.3 billion in 2022/23.
5. Includes funding from the Canada-wide Early Learning and Child Care Agreement of \$1.5 billion in 2022/23, \$2.3 billion in 2023/24 and \$2.8 billion in 2024/25.

5.2.2 Reasonableness of the Overall Revenue Forecast

The reasonableness of the revenue forecast, particularly for tax revenues, is conditional on the reasonableness of the economic assumptions. The reader should keep in mind that the degree of assurance we can provide declines the further estimates look into the future.

Overall, our Office found the revenue forecast was based on reasonable assumptions about Ontario's economy—such as growth of Ontario's gross domestic product (GDP), employment outlook and inflation outlook—that are prudent relative to those made by private-sector forecasters. It was prepared in the same manner as the revenue forecasts for the past pre-election reports.

The government factored caution and prudence into its revenue forecast numbers, as the Act requires it to do. However, based on our work, we found the estimates of provincial revenues from corporate taxes to be overly cautious and therefore understated.

Our independent expert in econometric forecasting helped us review the government's assumptions and estimates for several of the more significant tax revenues, and advised us that the government's economic outlook is reasonable when compared to private-sector forecasters' views on Ontario's economy. Specifically, he noted that for all years and all economic indicators, the government's forecast is near the private-sector's average outlook. For instance, **Figure 3** shows that the government forecasts for real and nominal GDP growth percentages are slightly below the average percentage increases forecast by 13 private-sector economists as obtained from a March 8, 2022 survey by the Ministry of Finance.

The government's faster and slower projected forecasts did not fall within the ranges of private-sector forecasters for real and nominal GDP growth percentages for the calendar year 2022, but the planned forecasts did fall within the ranges. The Ministry of Finance provided background information as to why the estimates for these indicators deviate from the private-sector forecasts. Its rationale, that the private-sector forecasts are requested to forecast the most likely scenarios and not a range of best-case and worst-case scenarios, is reasonable. Our expert welcomed the addition of the faster and slower growth scenarios, first introduced in the *2020 Ontario Budget*, as an opportunity to highlight potential optimistic and pessimistic outlooks that could turn out to be better or worse than the reasonable, prudent economic outlook.

Figure 3: Provincial Government's Calendar Year Projections for Real and Nominal GDP Growth (%)

Source of data: Ministry of Finance Survey of Forecasters (March 8, 2022), *2022 Ontario Budget*, Tables 2.2 and 2.3

	2022	2023	2024	2025
Real GDP				
Average projection from survey of private-sector forecasters	4.1	3.2	2.1	2.0
Province's projection	3.7	3.1	2.0	1.9
Nominal GDP				
Average projection from survey of private-sector forecasters	7.3	5.2	4.3	4.2
Province's projection	6.7	5.1	4.2	4.1

5.2.3 Revenue Estimates by Component

Provincial Revenues from Personal Income Tax, Corporate Tax, Sales Tax and the Ontario Health Premium

Our examination of taxation revenues included an analysis of the Province's estimates of personal income tax, corporate tax, sales tax and the Ontario Health Premium. These four sources of taxation revenue account for 80% of total expected taxation revenues in each of the three fiscal years included in the Multi-Year Fiscal Plan. We concluded that these estimates are reasonable, except for estimates of provincial revenues from corporate taxes.

Corporate tax forecasts, prepared by the Ministry of Finance, have been subject to a high degree of uncertainty. In the past two years, two key factors have added to the difficulty in making accurate forecasts:

- during the pandemic, exceptional levels of government economic intervention have made it more difficult for economists to predict Canadian economic activity, and by extension corporate income taxes; and
- starting in the first calendar quarter of 2020, Statistics Canada stopped publishing corporate operating profits data, which the Ontario Ministry of Finance previously relied on for its forecast of provincial revenues from corporate tax. Statistics Canada's current measure, corporate net operating surplus, is proving to be a less reliable predictor of Ontario corporate tax revenues.

See **Figure 4** for the differences between approved Ontario budgets and actual amounts for corporate taxes over the last 10 fiscal years.

With respect to the Multi-Year Fiscal Plan, our Office evaluated the Ministry of Finance's model-based estimates of corporate taxes against the latest available estimates for Ontario corporate net operating surplus. Based on our analysis, we concluded that the Ministry's model, as used, underforecasts provincial revenues from corporate taxes.

Figure 4: Comparison Between Budget and Actual Corporate Tax (\$ billion)

Sources of data: 2013–2021 Ontario Public Accounts and 2022 Ontario Budget

Fiscal Year Ending March 31	Budget	Actual per Public Accounts	Difference
2013	10.8	12.1	1.3
2014	11.3	11.4	0.1
2015	10.3	9.6	(0.7)
2016	11.3	11.4	0.1
2017	12.1	14.9	2.8
2018	13.8	15.6	1.8
2019	15.1	16.6	1.5
2020¹	15.2	15.4	0.2
2021¹	9.9	17.8	7.9
2022	14.4	22.2 ²	7.8

1. Statistics Canada stopped publishing corporate operating profits data as of the first quarter of the 2020 calendar year.

2. Unaudited interim balance per the 2022 Ontario Budget.

Using available economic data and historical trending, and with an expert in the field of econometrics, we developed a reasonable range of estimates for corporate taxes over the three-year forecast period in the Multi-Year Fiscal Plan. The Ministry of Finance's estimates of corporate taxes fall below our range of reasonableness for each of the three years. As well, we note that the Province's estimates of corporate taxes also fall below the projections of the Financial Accountability Office of Ontario in its Economic and Budget Outlook, Spring 2022.

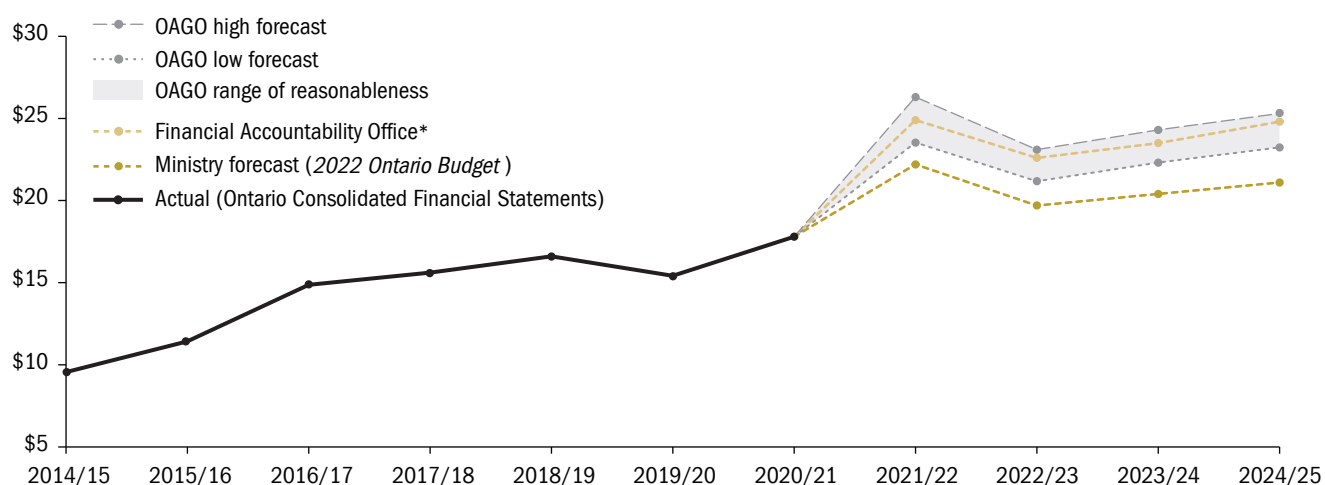
As shown in **Figure 5**, we determined that a reasonable range for provincial revenues from corporate taxes would be:

- \$1.5 billion to \$3.4 billion higher than the amount in the 2022 Multi-Year Fiscal Plan for the year ending March 31, 2023;
- \$1.9 billion to \$3.9 billion higher than the amount in the 2022 Multi-Year Fiscal Plan for the year ending March 31, 2024; and
- \$2.1 billion to \$4.2 billion higher than the amount in the 2022 Multi-Year Fiscal Plan for the year ending March 31, 2025.

We compared our reasonable range to selected Canadian jurisdictions (i.e. Quebec, Canada and British Columbia) that have published their corporate tax forecasts for the same three-year period. It is important to be cautious comparing jurisdictions' forecasts when the budget basis of forecasting is different and the projected economic growth rates are markedly different. For example, Quebec's net operating surplus is forecast to fall by 6.4% in 2022 and a further 3.1% in 2023. The Government of Canada uses its own forecasts of corporate profits before taxes that are only available at the national level. For the calendar year 2022, they forecast corporate profits before taxes to fall. As well, British Columbia's net operating surplus is forecast to increase by 0.8% in 2022 and a further 4.3% in 2023. In contrast, Ontario's forecast net operating surplus is expected to increase by 4.6% in 2022 and a further 5.8% in 2023. Given the different bases of budget forecasting and economic growth projections between Ontario and these Canadian jurisdictions, comparing corporate revenue trends is of limited value. Since Ontario expects higher corporate economic growth than other jurisdictions, it is reasonable to expect that Ontario would have higher projections of provincial revenues from corporate taxes in these years.

Figure 5: Actual and Projected Corporate Tax for Fiscal Years 2014/15–2024/25 (\$ billion)

Prepared by the Office of the Auditor General of Ontario



* Financial Accountability Office of Ontario in its Economic and Budget Outlook, Spring 2022.

Other Taxation Revenues

Other primary sources of taxation revenues are employer health tax, education property tax, gasoline tax, land transfer tax and tobacco tax. These sources of taxation revenues account for 20% of the total estimated provincial taxation revenues each fiscal year ending March 31, 2023, 2024 and 2025. The estimates for these revenues were largely calculated using tax-forecasting models. We reviewed the reasonableness of the assumptions used, the support for these assumptions, and the methodologies for applying the forecasting models to arrive at the tax-revenue estimates. We noted that the methodologies used were consistent in each of the years covered in the Multi-Year Fiscal Plan and were consistent with the methodologies used in prior years, other than where adjustments were necessary to account for the impact of pandemic-related tax deferrals. As well, we considered the reasonableness of the Ministry's explanations for the changes in expected taxation revenues from year to year. We concluded that all are reasonable.

Other Revenues

The largest ongoing transfers from the Government of Canada include Canada Health Transfer, Canada Social Transfer, and federal infrastructure programs. These three sources of federal revenue account for \$25.0 billion in estimated other provincial revenue in the fiscal year ending March 31, 2023, or 80.6% of the total estimated federal revenue for that fiscal year; 83.6% for the fiscal year ending March 31, 2024; and 82.6% for the fiscal year ending March 31, 2025. Our assessment of these estimated revenues primarily consisted of ensuring that the formulas and assumptions used for estimating Ontario's share of these federal transfers are reasonable and applied correctly, which they are.

Government Business Enterprises provided the Ministry with its net income estimates over the next three fiscal years. We compared these estimates with historical trends and conducted additional work to investigate any significant variances from one year to the next. We also reviewed the available business plans of Government Business Enterprises to ensure that its internal forecasts are consistent with the amounts forecast in the Multi-Year Fiscal Plan. The variances and internal projections are consistent with the amounts forecast.

On July 6, 2021, the government passed a regulation to create iGaming Ontario, a legal subsidiary of the Alcohol and Gaming Commission of Ontario, with the objective of offering Internet gaming in Ontario through private gaming operators in a new regulated market. iGaming Ontario launched the new regulated market on April 4, 2022. Based on the financial projections information provided to us during our review, the Province expects iGaming Ontario to generate net results from revenues and expenses of \$18 million, \$26 million, and \$31 million in each of the three years included in the Multi-Year Fiscal Plan. These forecasts are recorded as a component of Other Revenues. Actual revenues and expenses may vary. Given the lack of history in this area, it was not feasible to assess the reasonableness of the projections.

For the larger non-tax revenue streams—such as driver and commercial vehicle registration fees and sales and rentals—we also reviewed the supporting documentation for the estimates and analyzed changes in revenue amounts from one year to the next. The impact of the removal of renewal fees for most passenger and light commercial vehicle permits has reduced Other Revenues projections by approximately \$1 billion a year compared to previous years. The estimates were supported, and no concerns arose from our analysis of changes in revenue amounts.

5.2.4 Risks Relating to Revenue Forecasts

Although the government's economic forecast and related revenue estimates in the Multi-Year Fiscal Plan can be considered reasonable (with the exception of provincial revenue from corporate taxes discussed in **Section 5.2.3**), economic and revenue forecasting is still far from an exact science. The underlying economic forecasts are subject to many risks. The economic experts contracted by the government to review its budget economic forecast echoed this viewpoint, noting considerable uncertainty surrounding the Province's, Canada's and the world's recovery from the COVID-19 pandemic, along with the fragile state of the global economy. The situation in Ukraine and the resulting sanctions against Russia have weighed on both domestic and international markets. In addition, heightened inflation and supply chain disruptions pose ongoing risks to the Province's economic outlook.

Even in the absence of adverse international developments, the Ontario economy faces domestic risks that could undermine economic performance. A sharp decline in housing prices, coupled with the high level of household debt in an environment of rapidly increasing interest rates could lead to a slowdown in consumer spending, which would undermine economic growth prospects. On the other hand, it is possible that there may be a stronger-than-expected global outlook and continued robust recovery from the pandemic.

Appendix 3 shows the assumptions and key risks identified by the Province related to revenues and expenses.

5.3 Expense Estimates

5.3.1 Sector Expenses

The provincial government breaks down expenses by sector. The following is a list of the major sectors (the percentages relate to the fiscal year ending March 31, 2023):

- health (38%);
- education (16%);
- children's and social services (9%);
- post-secondary education (5%);
- justice (3%);
- other sectors (19%); and
- interest on debt (7%).

In addition, for 2022/23, Time-Limited COVID-19 Funding (3%) has been shown as a separate line in the Budget. **Figure 6** replicates the medium-term outlook in Table 3.8 of the Multi-Year Fiscal Plan.

5.3.2 Expense Estimates by Component

Program Expenses

The following is a list of the major components (the percentages relate to the fiscal year ending March 31, 2023):

- transfer payments, including transfers to the broader public sector (77% of expenses);
- ministry salaries, benefit and pension costs (6%);
- interest on debt (7%); and
- other expenses (10%).

Figure 7 highlights provincial expenses by component.

Figure 6: Provincial Government's Expense Estimates for Fiscal Years 2022/23–2024/25 (\$ billion)

Sources of data: 2022 Ontario Budget, Table 3.8 and the Office of the Auditor General of Ontario

	2022/23	2023/24	2024/25
Programs			
Health sector	75.2	77.6	78.3
Education sector ¹	32.4	34.2	35.1
Post-secondary education sector	10.8	11.1	11.4
Children's and social services sector	18.3	18.4	18.6
Justice sector	5.3	5.2	5.1
Other programs ²	36.3	38.3	39.7
Total Base Programs	178.3	184.8	188.1
COVID-19 Time-Limited Funding	6.9	–	–
Total Programs	185.2	184.8	188.1
Interest on debt	13.5	14.3	14.9
Total Expense	198.6	199.1	203.0

Note: Numbers may not add due to rounding.

1. Excludes Ontario Teachers' Pension Plan, which is included in Other programs.

2. Contains contingency funds amounts as follows: 2022/23 - \$4.6 billion, 2023/24 - \$6.6 billion and 2024/25 - \$8.2 billion.

Figure 7: Provincial Government's Expense Estimates by Component for the Fiscal Years Ending March 31 (\$ billion)

Prepared by the Office of the Auditor General of Ontario

	2023	2024	2025
Expenses			
Transfer payments	153.7	150.8	150.6
Ministry salaries, benefits and pension costs	11.6	11.5	11.4
Interest on debt	13.5	14.3	14.9
Other expenses*	19.9	22.5	26.1
Total Expense	198.6	199.1	203.0

Note: Numbers may not add due to rounding.

* Includes contingency funds of 2022/23 - \$4.6 billion, 2023/24 - \$6.6 billion and 2024/25 - \$8.2 billion.

5.3.3 Reasonableness of the Overall Expense Forecast

We concluded that program expense forecasts, (excluding contingency funding in Other Program Expenses, see **Section 5.4**), and interest expense forecasts are reasonable. We also concluded that the key assumptions underlying the government's expense forecasts are reasonable.

Program expense forecasts funded by transfer payments to specific sectors outside of ministries are by far the largest component of total expenses at 77%. Therefore, this was a key area in our examination of expense estimates. The government has two main types of transfer-payment programs:

- **Entitlement programs**—programs where the transfer-payment recipient has a legal entitlement to funds if certain eligibility or other conditions are met. Examples include social assistance (Ontario Disability Support Program and Ontario Works) and the Ontario Health Insurance Plan (OHIP) program. The challenge in estimating future expenses associated with entitlement programs is determining how many recipients will have a legal entitlement to the benefits in any future year. In the case of OHIP, for instance, the cost to the government depends on the number of people who access medical services in any given year. In essence, the expenses relating to entitlement programs are open-ended.
- **Discretionary programs**—programs where the government has latitude in determining the ultimate amount to be spent both upfront and during the fiscal year. While the estimates of such expenses are typically set relative to the amounts provided in prior years, estimated future amounts can also be adjusted to reflect government policy priorities and their choices on the level of services to be funded. Some discretionary programs (e.g., cancer treatment) may have attributes of an entitlement transfer payment program.

Our review of transfer-payment expense estimates focused on the larger programs (i.e. new initiatives over \$100 million and existing programs over \$500 million) and those where there was significant deviation from historical trends. This focus was particularly important given that the Multi-Year Fiscal Plan includes a number of new initiatives for the larger program areas (for example, health and social assistance) requiring sharp increases in spending over previous years. The new initiatives are a mix of entitlement and discretionary transfer-payment programs. For entitlement programs, there is a higher risk of actual costs differing significantly from estimates if the government's assumptions regarding the number of eligible people entitled to the benefits are off-target (see **Section 5.3.4** for details).

We reviewed the assumptions underlying the transfer-payment programs' expense estimates, considered entitlement criteria where applicable, assessed the forecasting models used and analyzed program trends. We concluded that the transfer-payment program expenses forecast for the next three years are reasonable for both new and existing programs.

We performed similar work to assess the future revenue and spending by broader-public-sector organizations (for example, hospitals, school boards and colleges) and government organizations (for example, Metrolinx and Ontario Health). These entities' expenses (and revenues) are part of the Province's expense (and revenue) estimates. We performed trend analysis on the major revenue and expense categories reported from each sector. We also reviewed the underlying assumptions for growth or decline in each major revenue and expense category for reasonableness, and the documentation supporting the assumptions, such as approved business plans. In addition, we reconciled recorded provincial grant expenses for these entities to the provincial grant revenues the entities recorded. We concluded that the assumptions are reasonable. As well, the transfer expenses estimated by the Province reconciled with the transfer revenues projected to be recorded by the entities.

Interest Expense on Debt

Total interest expense is projected to rise from \$13.5 billion in 2022/23 to \$14.9 billion in 2024/25—representing 10.4% growth over the three-year period—as a result of projected increases in debt to fund investments in capital assets and the annual deficits as well as the Province's projected higher borrowing rates reflecting the prevailing environment of rising interest rates.

To assess the reasonableness of the estimated expenses for interest on debt, we assessed the forecasting methodology used, reviewed the supporting documentation, and held discussions with senior management. We concluded that the assumptions underlying the government's interest expense forecasts over the next three years are reasonable.

Borrowing and Infrastructure

Although they do not form part of the 2022 Multi-Year Fiscal Plan, we reviewed the 2021/22 Borrowing Program and Medium-Term Outlook and the Infrastructure Expenditures Outlook outlined on pages 15 and 20, respectively, in the *2022 Ontario Budget* for consistency with the financial components of the Multi-Year Fiscal Plan. We noted no inconsistencies between the Multi-Year Fiscal Plan and the information presented regarding the planned borrowing program and infrastructure expenses outlined in the *2022 Ontario Budget*.

5.3.4 Risks Relating to Expense Forecasts

We note two areas of risk relating to the government's expense forecasts:

- actual compensation costs may differ significantly from estimates due to the undeterminable results of future contract negotiations; and
- the costs of new spending initiatives may differ significantly from estimates because there is no program history to inform the estimates.

Compensation Costs

Compensation costs account for approximately 6% of the government's program spending. (This calculation for compensation costs does not account for the compensation expenses of non-consolidated transfer payment recipients and salaries and benefits for Government Business Enterprises, provincial agencies and broader-public-sector entities.) One factor that could result in actual compensation costs differing from estimates is that a number of collective agreements across the public sector are currently up for renegotiation or will be up for renegotiation within the next three years.

New Spending Initiatives

The 2022 Multi-Year Fiscal Plan forecasts increased spending on a number of new initiatives, and for expansion of some existing programs. We examined the forecasts for all significant new spending announcements (over \$100 million) impacting the fiscal years ending March 31, 2023, 2024 and 2025. These announcements included both entitlement and discretionary programs, such as funding for early learning and child care programs, the reduction of gas and fuel taxes, a new refundable medical expense tax credit, a compensation strategy for personal support workers and a temporary nursing retention initiative.

Figure 8 lists the new program spending announcements included in the 2022 Multi-Year Fiscal Plan expense estimates, with new program initiative and program expansion amounts broken down by fiscal year.

For the new initiatives, such as funding for surgical recoveries, we examined the detailed assumptions and models used to forecast their costs. We concluded that the assumptions are reasonable.

However, there is a lack of historical data for new initiatives, which means that there is an increased risk of upward pressure on these new program expenses due to a potential of higher-than-forecast uptake and/or behavioural shifts resulting from the initiatives being announced.

For the expansion of existing programs, we examined the assumptions and models used to forecast the costs. We concluded that the assumptions are reasonable with respect to these programs as well.

We noted that there is an uptake risk associated with the cost of the entitlement programs being expanded; however, the risk is lower due to the larger volume of historical data available for the forecasts. For discretionary programs, there is little risk of upward pressures to the forecast expenses as the Province has discretion to limit the amount of spending to the announced level.

Figure 8: Announcements Included in the 2022 Ontario Budget¹ (\$ million)

Sources of data: 2022 Ontario Budget and the Office of the Auditor General of Ontario

	2022/23	2023/24	2024/25	Total
New Initiatives				
Canada-Wide Early Learning and Child Care Agreement ²	1,484.1	2,334.3	2,918.2	6,736.6
Compensation strategy for personal support workers	893.1	942.8	988.5	2,824.4
Hospitals – surgical recoveries	300.0	–	–	300.0
Next Generation 9-1-1	80.0	80.0	40.0	200.0
Accelerating Ontario's economy through a critical technologies' strategy	32.2	37.2	37.2	106.6
(A) Subtotal – New Initiatives	2,789.4	3,394.3	3,983.9	10,167.6
Program Expansions				
Maintaining additional hospital beds	76.1	1559.3	1581.3	3,216.7
Broadband infrastructure	692.7	1,039.3	962.3	2,694.3
Home care	70.0	87.0	343.0	500.0
New drug funding program	155.6	155.6	155.6	466.8
Invest Ontario venture capital funding	100.0	100.0	100.0	300.0
Skills training and employment programs	89.5	89.5	89.5	268.5
Sustaining level of care	69.0	69.0	69.0	207.0
Mental health and addictions – additional base funding for Roadmap to Wellness	203.8	–	–	203.8
Cancer treatment services	45.1	45.1	45.1	135.3
Building and redevelopment of long-term care beds	1.3	1.3	123.5	126.1
Clinical education	41.4	41.4	41.4	124.2
Skilled trades and apprenticeship modernization	33.7	33.7	33.7	101.1
(B) Subtotal – Program Expansions	1578.2	3,221.2	3,544.4	8,348.8
New and Expanded Tax Credits				
Low-income individuals and families non-refundable tax credit	400.0	320.0	320.0	1,040.0
Ontario Seniors Care at Home tax credit	140.0	120.0	125.0	385.0
(C) Subtotal – New and Expanded Tax Credits	540.0	440.0	445.0	1,425.0
(D) Other New Initiatives, Program Expansions and New and Expanded Tax Credits Less than \$100 Million	1,221.7	591.3	441.5	2,254.5
Total of A, B, C and D^{3,4}	6,129.3	7,646.8	8,414.8	22,190.9

1. Amounts of \$100 million and greater for the three-year forecast period are included in this listing. Increases in base funding to existing programs are not included.

2. Government of Canada funding to support this initiative is included in revenues: 2022/23 - \$1.45 billion; 2023/24 - \$2.28 billion; 2024/25 - \$2.84 billion.

3. There may be differences between this table and the 2022 Ontario Budget due to certain announcements on a calendar basis versus fiscal year presentation.

4. Some announced items are earmarked through the contingency funds. See **Section 5.4** (e.g., electric vehicle battery manufacturing investments and General Motors manufacturing facilities).

5.4 COVID-19 Time-Limited Funding, Contingency Funding and the Reserve

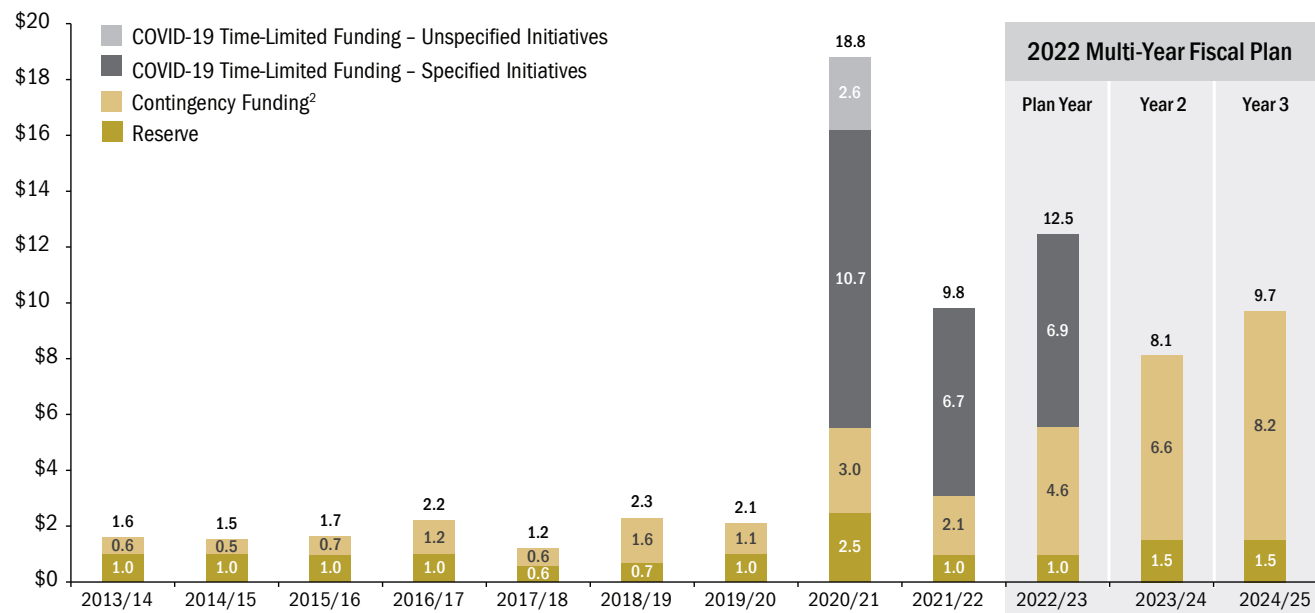
The 2022 Ontario Budget sets aside funds to deal with COVID-19 as well as unexpected events and expenditures. **Figure 9a** illustrates special pandemic funding referred to as COVID-19 Time-Limited Funding (both for specified and unspecified initiatives), the contingency funding recorded in Other Programs and the reserve for each plan year (the first year of a medium-term outlook) in Ontario budgets since 2013. **Figure 9b** illustrates the same funding in each medium-term outlook in Ontario budgets since 2018.

Reserves are meant to address the impact of unexpected and adverse future events. Expenditures of reserve amounts require Legislature approval. Alternatively, contingency funding has traditionally been used to address unanticipated expenses and to fund ministry programs and initiatives not included in the budget because information or policy approval was still not available when the budget was prepared. COVID-19 expenditures were budgeted as Time-Limited Funding and were not included in reserve funds or contingency expenses in Other Program Expenses. Expenditures for contingencies and COVID-19 Time-Limited Funding are approved by the Treasury Board Secretariat.

The following sections on COVID-19 Time-Limited Funding, contingency funding (included in Other Program Expenses) and the reserve further discuss these areas.

Figure 9a: COVID-19 Time-Limited Funding, Contingency Funding and the Reserve, 2013–2022, by Budget Plan Year¹ (\$ billion)

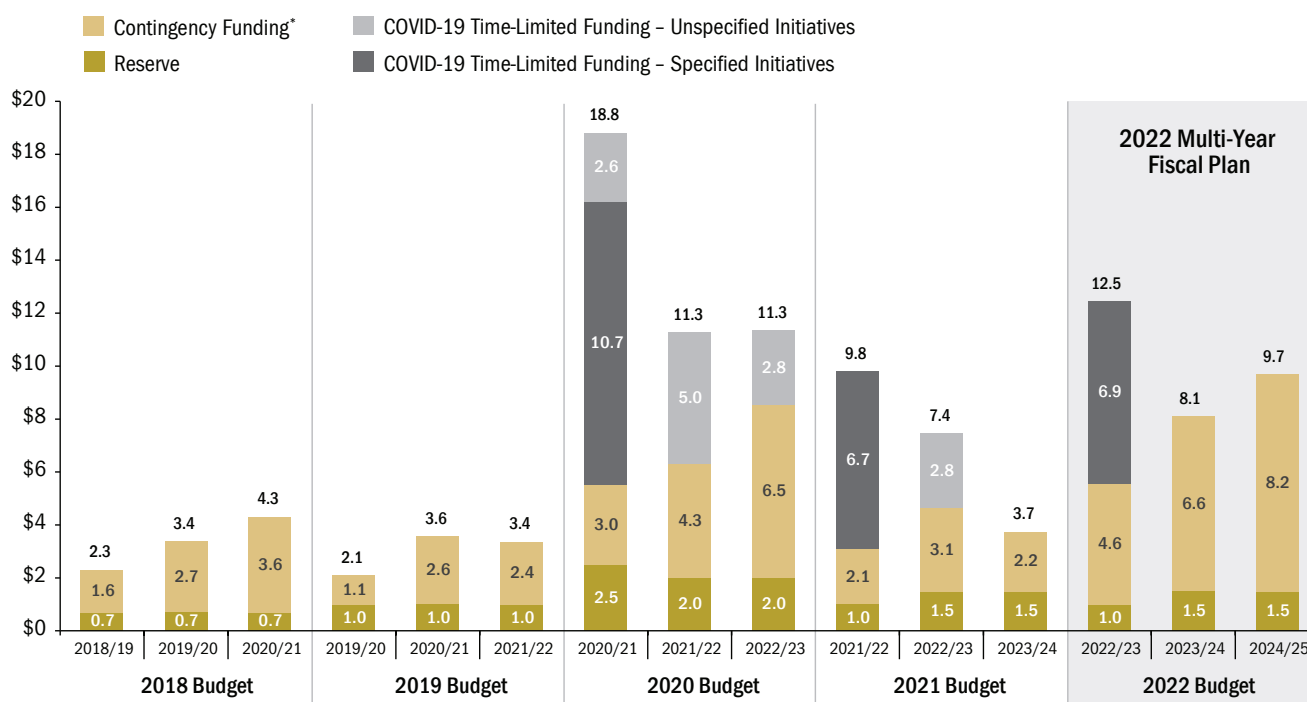
Sources of data: 2013 to 2022 Ontario Budgets



1. Refers to the first year of the Medium-Term Outlook in each budget. For example, the first year of the Medium-Term Outlook in the 2022 Budget is the fiscal year ending March 31, 2023. The plan year in the 2013 Ontario Budget is the fiscal year ending March 31, 2014. The Medium-Term Outlook is the Multi-Year Fiscal Plan.
2. Recorded in Other Program Expenses in the 2022 Ontario Budget.

Figure 9b: COVID-19 Time-Limited Funding, Contingency Funding and the Reserve, Medium-Term Outlook by Budget (\$ billion)

Sources of data: 2018 to 2022 Ontario Budgets



* Recorded in Other Program Expenses in the 2018 to 2022 Ontario Budgets.

COVID-19 Time-Limited Funding

In the 2022 Multi-Year Fiscal Plan, the Province provided for \$6.9 billion in COVID-19 Time-Limited Funding assistance for identified initiatives. The Province has been presenting the COVID-19 expenses as a separate line in its budgets since last year in the 2021 Budget to indicate the temporary nature of this funding. **Figures 9a and 9b** illustrate COVID-19 budgets that were for specified and unspecified expenditures. **Figure 10** includes a description of the initiatives identified for COVID-19 Time-Limited Funding for the fiscal year ending March 31, 2023.

Similar to the other new entitlement programs, there is a lack of historical data, which means that there is an increased risk of upward pressure on these expenses due to higher-than-forecast uptake and/or behavioural shifts resulting from the programs being announced. For expansion of existing COVID-19 programs, we examined the assumptions and models used to forecast the costs. We concluded that the assumptions are reasonable with respect to these programs as well. However, we recognize that COVID-19 expenditures could also change depending on the state and evolution of the pandemic.

Contingency Funding (included in Other Program Expenses)

The budget includes an amount for contingency expenses in each year to cushion ministries from the impact of the fiscal plan's assumptions not being borne out. In this way, the government's fiscal plan complies with the Act's requirement that it incorporate responsibility and flexibility into its fiscal planning. The budgeted contingency expenses totalled \$19.4 billion in the 2022 Multi-Year Fiscal Plan: \$4.6 billion in the year ending March 31, 2023; \$6.6 billion in the year ending March 31, 2024; and \$8.2 billion in the year ending March 31, 2025.

Figure 10: COVID-19 Time-Limited Funding Initiatives Included in the 2022 Ontario Budget for the Fiscal Years Ending March 31 (\$ million)

Sources of data: 2022 Ontario Budget and the Office of the Auditor General of Ontario

	2023	2024	2025	Total
COVID-19 Initiatives				
Hospital beds, including critical care beds	1,436.1	-	-	1,436.1
COVID-19 testing	1,113.4	-	-	1,113.4
Vaccination program	674.3	-	-	674.3
Support municipal transit systems recovery	585.0	-	-	585.0
Temporary nursing retention initiative	381.9	-	-	381.9
Supporting hospitals for purchasing personal protective equipment, hiring additional staff and infection prevention and control	380.0	-	-	380.0
Prevention and containment in long-term care homes	277.0	-	-	277.0
School year supports	231.0	-	-	231.0
Extend Training Tax Credit	205.0	-	-	205.0
Ontario Staycation Tax Credit	200.0	-	-	200.0
Learning Recovery Fund	191.5	-	-	191.5
Tutoring supports	175.1	-	-	175.1
Support municipal service managers and Indigenous program partners deliver critical services through the Social Services Relief Fund	127.5	-	-	127.5
Public Health Units COVID-19 extraordinary costs	100.0	-	-	100.0
Other programs less than \$100 million	829.5	-	-	829.5
Total COVID-19 Time-Limited Initiatives	6,907.3	-	-	6,907.3

As previously noted, contingency funds have traditionally been used to address unanticipated expenses and to fund ministry programs and initiatives not included in the budget because information or policy approval was still not available when the budget was prepared. Typically, when ministries also face unavoidable pressures and cannot manage within existing budgets, they request funds from the contingency expense budget, which is controlled centrally by the Treasury Board Secretariat. The Treasury Board Secretariat assesses requests in the context of the government's fiscal plan and overall priorities and recommends to the government whether to provide funds.

We found that most of the budgeted contingency expenses of \$19.4 billion in the Multi-Year Fiscal Plan for the three fiscal years ending March 31, 2023, 2024 and 2025 have not been earmarked for specific purposes. We noted that the amount not earmarked was roughly 67% or \$3.1 billion for the year ending March 31, 2023; 84% or \$5.5 billion in fiscal 2024; and 87% or \$7.1 billion in fiscal 2025. In total, unearmarked funds of approximately 81%, or \$15.7 billion, remain available to address potential future expenses.

Although most of the budgeted contingency expenses in the 2022 Multi-Year Fiscal Plan have not been earmarked for specific purposes, we were told that the Secretariat is closely monitoring certain areas of risk, such as Indigenous land claims and collective bargaining settlements.

The budgeted contingency expenses in the *2022 Ontario Budget* are significantly larger than any three-year amount set aside in previous Ontario budgets:

- \$1.6 billion in the May 2014 Budget;
- \$2.3 billion in the March 2015 Budget;
- \$6.4 billion in the February 2016 Budget;
- \$3.1 billion in the April 2017 Budget;
- \$7.9 billion in the March 2018 Budget;
- \$6.0 billion in the April 2019 Budget;
- \$13.8 billion in the November 2020 Budget;
- \$7.5 billion in the March 2021 Budget; and
- \$19.4 billion in the April 2022 Budget.

In the last 10 years, the amounts budgeted for contingency expenses in a budget plan year have varied widely, from a low of \$0.5 billion in the 2014 Budget to a high of \$4.6 billion in the *2022 Ontario Budget*. This amount is higher than when the contingency fund was set at \$3.4 billion for the 2010 Budget plan year due to the uncertainty provoked by the 2008 financial crisis. In today's dollars, that amount would be \$4.3 billion.

An amount is set aside for contingency expenses annually through the multi-year planning process, using available financial information to help determine which risks have the highest likelihood of occurring. Although it is prudent to incorporate some flexibility into the *2022 Ontario Budget* for contingencies, the amount included for the three-year period appears to be overly cautious. As well, similar to prior budgets, the Multi-Year Fiscal Plan does not disclose the level of contingency expenses included for the years ending March 31, 2024 and March 31, 2025. Any forecasted contingency expenses not used by year-end reduce expenses and improve the Province's financial results.

The Reserve

The Act requires that the government's Multi-Year Fiscal Plan include a reserve to protect it against unexpected changes in the Province's revenue and expenses. In contrast to budgeted contingency expenses, which are meant to offset the consequences of the fiscal plan's assumptions not being borne out, the purpose of the reserve is to offset the impact of unexpected and adverse future events, such as a global financial crisis.

The government's 2022 Multi-Year Fiscal Plan includes a reserve of \$1.0 billion for the fiscal year ending March 31, 2023 and \$1.5 billion for each of the fiscal years ending March 31, 2024 and 2025. Therefore, for the purposes of our examination of the Multi-Year Fiscal Plan, the government has complied with the Act by including a reserve in each year of its fiscal plan.

Generally, higher reserve amounts are reported in the later years of a fiscal plan in order to better reflect the greater uncertainty of estimating revenues and expenses further into the future. If a portion of the reserve is not required by fiscal year-end, it will, like unused contingency funding, contribute to an improvement in the Province's annual surplus or deficit position.

Given that the nature of a reserve is to respond to unexpected future events, it is challenging to make conclusions about the reasonableness of the amount. Historically, the government has rarely used the budget reserve. For instance, it was used in 2009 and 2010 due to the global financial crisis.

The total reserve of \$4.0 billion reported over the three years in the 2022 Multi-Year Fiscal Plan is consistent with the \$4.0 billion total reserve included in the 2021 Multi-Year Fiscal Plan.

It is reasonable for the annual reserve to increase over a forecast period as there is more uncertainty and risk to the outlook in years further in the future. Previous federal budgets and most Ontario budgets have followed this practice of increasing the annual reserve through future years. Alberta, British Columbia and Quebec all have recently issued their 2022 budgets and all have included provisions for economic risks and other support and recovery measures.

5.5 Ratio of Provincial Net Debt to Gross Domestic Product (GDP)

5.5.1 Provincial Measures of Debt

There are three possible measures of debt:

- **Total debt** is the total amount of borrowed money the government owes to external parties. It consists of bonds issued in public capital markets, non-public debt, Treasury bills and U.S. commercial paper. Total debt provides the broadest measure of a government's debt load.
- **Net debt** is the difference between the government's total liabilities and its financial assets. Liabilities consist of all amounts the government owes to external parties, including total debt, accounts payable, pension and retirement obligations, and transfer-payment obligations. Financial assets are those that theoretically can be used to pay off liabilities or finance future operations, and include cash, accounts receivable, temporary investments and investments in government business enterprises. Net debt provides a measure of the amount of future revenues required to pay for past government transactions and events.
- **Accumulated deficit** represents the sum of all past annual deficits and surpluses of the government. It can also be derived by deducting the value of the government's non-financial assets, such as its tangible capital assets, from its net debt.

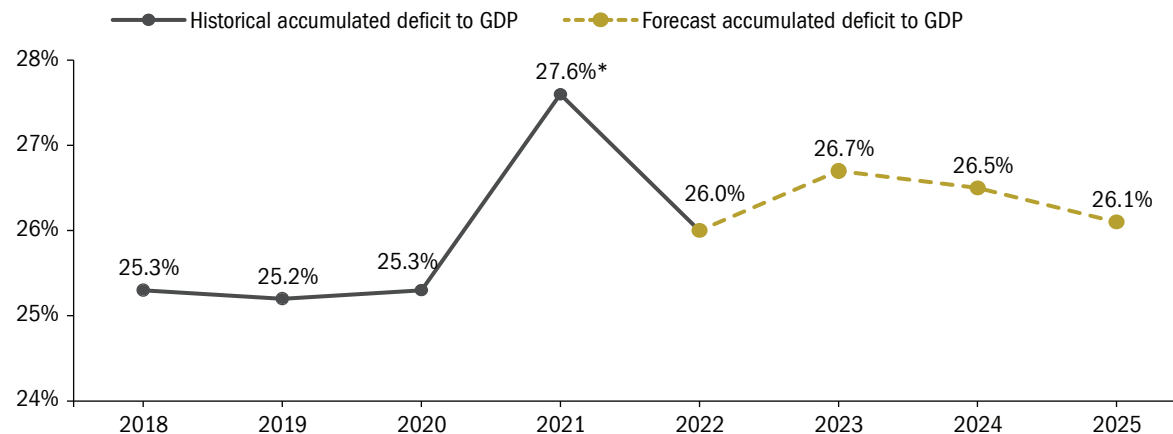
The Province's accumulated deficit is forecast to increase by \$23.6 billion for the fiscal year ending March 31, 2023, \$12.3 billion for the fiscal year ending March 31, 2024 and \$7.6 billion for the fiscal year ending March 31, 2025. Net debt is forecast to increase by \$33.7 billion for the fiscal year ending March 31, 2023, \$21.8 billion for the fiscal year ending March 31, 2024, and \$18.4 billion for the fiscal year ending March 31, 2025.

5.5.2 Ontario's Ratio of Accumulated Deficit to GDP

Figure 11 shows the Province's historical accumulated deficit to GDP and the forecast accumulated deficit to GDP from the Multi-Year Fiscal Plan.

Figure 11: Accumulated Deficit to Gross Domestic Product (GDP), for the Fiscal Years Ending March 31

Sources of data: Province of Ontario Annual Report (March 31, 2018, March 31, 2019, March 31, 2020 and March 31, 2021) and 2022 Ontario Budget



* Impact of COVID-19 pandemic, which contributed to increased government spending while consumer spending declined.

5.5.3 Ontario's Ratio of Net Debt to GDP

A key indicator of the government's ability to carry its debt is the level of debt relative to the size of the economy. The ratio of net debt to GDP measures the relationship between a government's obligations and its capacity to raise the funds needed to meet them. It is an indicator of the burden of government debt on the economy.

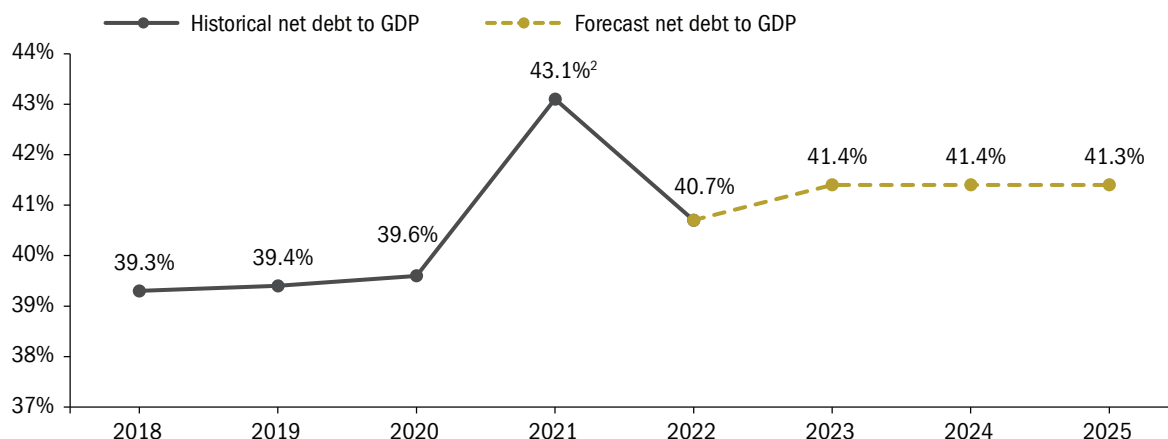
If the amount of debt that must be repaid relative to the value of the GDP is rising—in other words, the ratio is rising—it means the government's net debt is growing faster than the provincial economy and becoming an increasing burden.

As discussed in **Section 5.2.3**, based on our work, we found that the estimates of provincial revenues from corporate taxes are overly cautious and therefore understated. The impact of this on Ontario's ratio of net debt to GDP is outlined in **Section 2.0**.

Figure 12 shows the historical and forecast ratio of net debt to GDP. This does not reflect any adjustment for the understatement of estimates of provincial revenue from corporate tax (outlined in **Section 2.0**).

Figure 12: Ratio of Net Debt to Gross Domestic Product (GDP)¹, for the Fiscal Years Ending March 31

Sources of data: Province of Ontario Annual Report (March 31, 2018, March 31, 2019, March 31, 2020 and March 31, 2021) and 2022 Ontario Budget



1. This figure does not reflect any adjustment for the understated estimates of provincial revenue from corporate tax (see **Section 5.2.3** for more details).

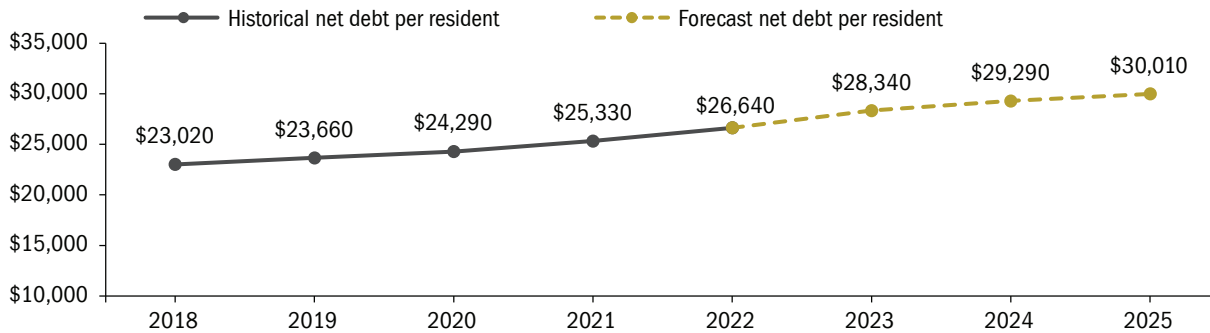
2. Impact of COVID-19 pandemic contributed to increased government spending while consumer spending declined.

5.5.4 Net Debt Per Ontario Resident

Using the more common measure, Ontario's net debt will have increased by 25% over a five-year period, from \$373.6 billion for the year ending March 31, 2021 to \$468.8 billion for the fiscal year ending March 31, 2025. To put this in perspective, the amount of net debt owed by each resident of Ontario on behalf of the government will increase from about \$25,300 per person in 2021 to about \$30,000 per person in 2025. In other words, eliminating the Province's forecasted net debt in 2025 would require every Ontarian to pay about \$30,000. **Figure 13** shows the net debt per Ontario resident from the fiscal year ending March 31, 2018 to the fiscal year ending March 31, 2025.

Figure 13: Net Debt per Ontario Resident, for the Fiscal Years Ending March 31

Sources of data: Province of Ontario Annual Reports (March 31, 2018, March 31, 2019, March 31, 2020 and March 31, 2021), 2022 Ontario Budget, Ontario Financing Authority and the Office of the Auditor General of Ontario



5.6 Accounting Standards to Implement

A number of new Canadian Public Sector Accounting Standards will come into effect during the three years of the 2022 Multi-Year Fiscal Plan. These standards are:

- Asset Retirement Obligations – effective April 1, 2022;
- Financial Instruments – effective April 1, 2022;
- Foreign Currency Translation – effective April 1, 2022;
- Revenues – effective April 1, 2023;
- Purchased Intangibles – effective April 1, 2023; and
- Public Private Partnerships – effective April 1, 2023.

The Province has incorporated estimates for the impact of adopting Asset Retirement Obligations in the 2022 Multi-Year Fiscal Plan.

As indicated in the Multi-Year Fiscal Plan, the Province is facing challenges that make it difficult to forecast the impact of fair valuing Ontario's debt and derivative portfolio under the Financial Instruments and Foreign Currency Translation standards. The Province has concluded that it is not possible to include the forecasts in the fiscal plan, and we agree with the Province's assessment.

The Province is in the process of assessing the impacts of the new Revenue, Public Private Partnerships and Purchased Intangibles standards, which are effective starting in the fiscal year ending March 31, 2024. As such, the potential financial impact of these standards is not reflected in the Multi-Year Fiscal Plan.

5.7 Quality of Information Provided to Treasury Board

As part of our work over the reasonableness of the Multi-Year Fiscal Plan, we assessed a number of documents that were provided to the Treasury Board for review and approval. Similar to the findings from our Office's report Business Case Development in the Ontario Public Service, included in our 2020 Annual Report, we found that the funding documentation provided to the Treasury Board was not as detailed as supporting documents we reviewed as part of the 2018 Pre-Election Report.

The level of detail regarding service levels expected to be provided to support the funding was absent from the multi-year planning documentation and discussions. The funding narratives focused more on the maintenance of funding levels, increases due to inflation, and the need to manage financial pressures from within. For transfer-payment programs, we were able to assess the reasonableness of funding with respect to historical levels, with adjustments for announced program changes and inflationary increases.

Appendix 1: Results of Our Examination on the Multi-Year Fiscal Plan's Performance in Relation to Our Objective and Criteria

Prepared by the Office of the Auditor General of Ontario

The objective of our examination of the Multi-Year Fiscal Plan in the *2022 Ontario Budget* is to enable the Auditor General to form an opinion on the reasonableness of the Multi-Year Fiscal Plan in relation to the criteria outlined below.

Criteria	Action Items	Results
The 2022 Multi-Year Fiscal Plan should be consistent with the presentation and disclosure guidance established by the Chartered Professional Accountants of Canada for future-oriented financial information and with the requirements of the Fiscal Sustainability, Transparency and Accountability Act, 2019.	<ul style="list-style-type: none"> The information presented is consistent with the relevant legislative provisions of the Fiscal Sustainability, Transparency and Accountability Act, 2019, that govern the Multi-Year Fiscal Plan. 	Met
	<ul style="list-style-type: none"> Key economic and financial assumptions are clearly explained and supportable. 	Met except for the assumptions relating to provincial revenues from corporate taxes.
	<ul style="list-style-type: none"> Forecasts are significantly detailed to demonstrate the impact of economic conditions and government actions on its financial situation. 	Met except for contingency expense forecasts for the fiscal years ending in March 31, 2024 and 2025 not being disclosed within the <i>2022 Ontario Budget</i> .
	<ul style="list-style-type: none"> Significant risks related to forecasts are simply stated and related sensitivity analyses are published. 	Met
	<ul style="list-style-type: none"> Government directives and announcements that have a significant influence on the 2022 Multi-Year Fiscal Plan are described. 	Met
	<ul style="list-style-type: none"> The financial information is prepared in accordance with Canadian Public Sector Accounting Standards (PSAS). 	Met
	<ul style="list-style-type: none"> The presentation and disclosure in the 2022 Multi-Year Fiscal Plan is consistent with the presentation and disclosure guidance established by the Chartered Professional Accountants of Canada for future-oriented financial information. 	Partially met. The <i>2022 Ontario Budget</i> includes a general purpose future-oriented income statement as suggested in the CPA Canada guidance. However, in the Multi-Year Fiscal Plan, a reader needs to combine tables 3.1, 3.5 and 3.8 to obtain the same level of detail as in the Medium-Term Outlook on page 7 of the <i>2022 Ontario Budget</i> .

Criteria	Action Items	Results
As of the date of this report, the assumptions used to prepare the Multi-Year Fiscal Plan should be consistent with the plans of the Government of Ontario, and the estimated revenues and expenses for the three fiscal years reflect the use of such assumptions.	<ul style="list-style-type: none"> Decisions of the government subsequent to the release of the budget, and prior to the date of the statement do not have a material impact on the estimated revenues and expenses for the years presented in the Multi-Year Fiscal Plan. 	Met
	<ul style="list-style-type: none"> The assumptions used to estimate revenues and expenses are consistent with the approvals provided by the Treasury Board on the 2022 Multi-Year Planning (MyP) submissions and the 2022 Budget. 	Met
	<ul style="list-style-type: none"> The revenue and expenses for the years presented reflect the decisions of the Treasury Board on the 2022 MyP submissions and the 2022 Budget. 	Met
The assumptions relating to the fiscal years ended March 31, 2023, March 31, 2024 and March 31, 2025, respectively, are suitably supported, provide a reasonable basis for estimating revenues and expenses, keeping in mind that the degree of uncertainty with respect to assumptions increases the further in the future estimates are made.	<ul style="list-style-type: none"> The assumptions used are supported by the expected economic conditions and the decisions of government. 	Met except for the assumptions relating to provincial revenues from corporate taxes.
	<ul style="list-style-type: none"> The estimated revenues and expenses reflect the assumptions used as outlined in the Multi-Year Fiscal Plan. 	Met except that contingency expense forecasts are overly cautious.

Appendix 2: Statement of Ministry of Finance and Treasury Board Secretariat Responsibility

The below statement of responsibility was included as part of the government's previous Pre-Election Reports. Since the introduction of the *Fiscal Sustainability, Transparency and Accountability Act, 2019*, the government is not required to prepare a separate Pre-Election Report from the Budget and therefore the statement of responsibility has been included here.

Statement of Responsibility

The Multi-Year Fiscal Plan (fiscal plan) in the *2022 Ontario Budget* has been prepared by the Ministry of Finance and Treasury Board Secretariat in compliance with the *Fiscal Sustainability, Transparency and Accountability Act, 2019*. This fiscal plan presents the medium-term fiscal plan for 2022/23 to 2024/25.

The Ministry of Finance and Treasury Board Secretariat are responsible for preparing the information contained in this fiscal plan on behalf of the Government of Ontario. The ministries' estimates of revenues and expenses have been developed consistent with the policy and financial decisions of the government and assumptions on the projected performance of the Ontario economy, demands for government services and other key fiscal planning assumptions. Certain assumptions are based on anticipated actions, strategies and programs of the government that are consistent with the fiscal plan. The Ministry of Finance and Treasury Board Secretariat will assist the Office of the Auditor General of Ontario in its review of the fiscal plan and the underlying assumptions.

In compliance with the requirements of the *Fiscal Sustainability, Transparency and Accountability Act, 2019*, this fiscal plan includes the following information:

- an estimate of Ontario's revenues and expenses for the period of the plan, including estimates of the major components of the revenues and expenses;
- the forecasts and assumptions used to prepare the revenue and expense estimates for the period of the plan;
- a reserve to provide for unexpected adverse changes in revenues and expenses, in whole or in part, and the details of the reserve;
- a comprehensive discussion of the risks that, in the Minister's opinion, may have a material impact on the economy or the public sector during the period of the plan;
- a description of the intended effects of the plan on the Province; and
- information about the projected ratio of provincial net debt to Ontario's gross domestic product for the period of the plan.

The estimates are based on the best information available as of April 28, 2022. Information related to material events that occurred after April 28, 2022, will be shared with the Office of the Auditor General of Ontario to support its review of the fiscal plan.

The Ministry of Finance and Treasury Board Secretariat do not provide assurance on the achievability of the prospective results because events and circumstances frequently do not occur as expected, and the

(continued on page 33)

achievement of prospective results is dependent on future policy decisions and actions of government as well as future economic conditions.

The financial estimates in this fiscal plan have been prepared in accordance with accounting principles for governments issued by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accounts of Canada (CPA Canada). The accounting policies are consistent with those used in preparing the annual consolidated financial statements of Ontario. The Multi-Year Fiscal Plan clearly discloses where future PSAB accounting principles were not followed.

Signed by:

Mr. Greg Orencsak

Deputy Minister, Ministry of Finance

original signed

Ms. Deborah Richardson

Deputy Minister, Treasury Board Secretariat and Secretary of Treasury Board and Management Board of Cabinet

original signed

Ms. Beili Wong

Comptroller General and Deputy Minister, Treasury Board Secretariat

original signed

Ms. Maureen Buckley

Provincial Controller and Assistant Deputy Minister, Treasury Board Secretariat

original signed

The Government of Ontario is responsible for the 2022 Multi-Year Fiscal Plan in the *2022 Ontario Budget* and accepts responsibility for the objectivity and integrity of the 2022 Multi-Year Fiscal Plan. Those charged with governance are responsible for overseeing the Government of Ontario's financial reporting and budgeting process.

The Honourable Prabmeet Sarkaria

President of the Treasury Board

original signed

The Honourable Peter Bethlenfalvy

Minister of Finance

original signed

Appendix 3: Key Assumptions in the 2022 Multi-Year Fiscal Plan

Source of data: *Ontario 2022 Budget*

Section	Key Assumptions
Personal Income Tax	The primary driver of the forecast for Personal Income Tax revenues is the outlook for growth in compensation of employees. The Personal Income Tax revenue projection also reflects the impact of tax measures as well as prior-year and unique factors such as the impact of Canada Recovery Benefits payments that have been deemed taxable by the federal government. Personal Income Tax revenue is projected to grow at an average annual rate of 5.4% between 2021/22 and 2024/25, comparable with average annual growth of 4.9% in compensation of employees over the same period. Personal Income Tax revenue tends to grow at a faster rate than incomes due to the progressive structure of the Personal Income Tax system.
Sales Tax	The forecast for Sales Tax revenue is driven by the projection for household consumption spending. Average growth in Sales Tax revenue of 5.6% between 2021/22 and 2024/25 is consistent with projected annual growth in household consumption of 6.5%.
Corporations Tax	The forecast for Corporations Tax revenue is based on the projection for net operating surplus of corporations. Corporations Tax revenue for 2021/22 includes a one-time amount of \$3.0 billion for 2020 tax returns and prior years processed after the finalization of 2020/21 results. Excluding this amount, Corporations Tax revenue is projected to grow at an average annual rate of 3.2% between 2021/22 and 2024/25, largely in line with the average annual growth in net operating surplus of corporations over the same period.*
Ontario Health Premium	The primary driver of the forecast for Ontario Health Premium revenue is the outlook for growth in compensation of employees. Ontario Health Premium revenue is projected to grow at an average annual rate of 4.4% between 2021/22 and 2024/25, comparable with average annual growth of 4.9% in compensation of employees over the same period.
Education Property Tax	Education Property Tax revenue is based primarily on the outlook for growth in the property assessment base resulting from new construction activities. Revenues are projected to remain relatively stable from 2021/22 to 2024/25, with assessment growth offset by the impact of previously announced measures, including the reduction in Business Education Tax rates.
Other Tax Revenues	Revenues from All Other Taxes are projected to increase at an average annual rate of 4.7% between 2021/22 and 2024/25. This includes revenues from the Employer Health Tax; Land Transfer Tax; Beer, Wine and Spirits Taxes; and volume-based taxes such as the Gasoline Tax, Fuel Tax and Tobacco Tax.
Government of Canada Transfers	The forecast for Government of Canada transfers is largely based on existing federal-provincial funding agreements and formulas. Federal transfers are projected to increase at an average annual rate of 4.0% from 2021/22 to 2024/25.

Section	Key Assumptions
Income from Government Business Enterprises (GBEs)	The outlook for GBEs is based on Ontario Ministry of Finance estimates of net income for Hydro One Ltd. and projections provided by Ontario Power Generation, the Ontario Cannabis Store, the Liquor Control Board of Ontario and the Ontario Lottery and Gaming Corporation (OLG). Net incomes of GBEs are projected to increase at an average annual rate of 10.0% from 2021/22 to 2024/25. The strong growth mainly reflects the anticipated recovery of OLG's net income that has been impacted by the closure of casinos to protect public health in response to the COVID-19 pandemic and expected increases in lottery and digital revenue.
Other Non-Tax Revenue	The forecast for Other Non-Tax Revenue is based on projections provided by government ministries and agencies. The outlook for Other Non-Tax Revenues is projected to increase at an average annual rate of 6.3% from 2021/22 to 2024/25 largely due to the expected increase in third-party revenues from hospitals, school boards and colleges that are recognized in the Province's financial statements. It also reflects lower revenues from Vehicles and Drivers Registration Fees in 2021/22 due to the elimination and the rebate of licence plate renewal fees.
Health Sector	Estimates are based on assumptions about population growth and aging, hospital utilization and demand for services. Changes in expense in this sector can arise from inflation, new technologies and program demands (utilization) as well as sector compensation.
Hospitals	Estimates are based on assumptions about patient volumes, demand for treatments and services, bed capacity and health human resources. Changes in expense in this program can arise from unexpected public health emergencies, changes in demand for treatments and procedures including new drugs and treatments, costs of labour agreements with health professionals and construction market conditions for capital.
Ontario Health Insurance Plan	Estimates are based on assumptions about patient volumes and negotiated fee schedules. Changes in expense in this program can arise from negotiated settlements with physicians and practitioners and regulated changes in practice.
Home and Community Care Sector	Estimates are based on assumptions about patient volumes, demand for services, and health human resource capacity. Changes in expense in this program can arise from negotiated labour settlements and changes in demand for services as a growing number of seniors receive supports to remain in their homes. Note, while this may increase expense in home and community care, it can reduce the need for more costly care in hospitals and long-term-care settings.
Long-Term-Care Sector	Estimates are based on assumptions about an aging population and increasing complexity and levels of care. Changes in expense in this program can arise from negotiated labour settlements, demand for services and increased acuity of care for residents with complex medical conditions. Market conditions may increase capital costs.
Ontario Public Drug Programs	Estimates are based on assumptions about drug utilization and the introduction of new drugs. Changes in expense in this program can arise from increased demand and the costs of new drugs being added to the formulary.

Section	Key Assumptions
Education Sector	Estimates are based on assumptions about child care, elementary, secondary and full-day kindergarten enrolment rates as well as anticipated learning loss as a result of COVID-19. Changes in expense in the education sector can arise from unexpected changes in child care, elementary, secondary and full-day kindergarten student enrolment, as well as costs of labour agreements with teachers and education workers.
Post-secondary Education Sector	Estimates are based on assumptions about enrolment rates of college and university students, the continuation of federal support programs in 2022/23, uptake of student financial assistance as well as labour market and economic conditions. Changes in expense in this sector can arise from unexpected changes in student enrolment in post-secondary institutions, uptake of student financial assistance and economic conditions.
Children's and Social Services Sector	Estimates for sector expenses are based on assumptions about demographic outlook, labour market and economic conditions. Changes in expense in this sector can arise from changes in federal support programs, utilization rates as well as economic conditions.
Justice Sector	Estimates are based on expected public safety requirements and court caseloads. Changes in expense in this sector could arise as courts address case backlogs. Other risks include market conditions that impact construction costs and timelines.
Other Programs	The estimated expense for each of the above-noted sectors and activities is based on the best information regarding the government's planned course of action as determined through the Multi-Year Planning process, as well as changes in labour market and economic conditions. Changes in other programs' expense may result from government decisions related to specific sectors, changes in capital project costs, changes in budgeted contingency funds as well as changes in labour market and economic conditions.
Interest on Debt	For existing debt, interest expense is based on the terms of each debt issue. Interest expense for future debt projected to be issued in 2022/23 and 2023/24 is based on the Ministry of Finance forecast of Government of Canada interest rates provided in the <i>2022 Ontario Budget</i> together with assumptions on the spread normally required by investors to purchase the Province's debt. For debt projected to be issued in 2024/25, interest expense is based on the historical 20-year average of interest rates. Forecasts of interest rates and spreads are subject to risks arising from unforeseen economic conditions or other events. Revisions to both the projected deficits and investments in infrastructure may impact the amount of future debt required to be issued, and in turn, the interest on debt expense. The interest on debt expense can also be impacted by revisions to the projected borrowing rates underlying the forecast.

* See **Section 5.2.3** for our assessment of corporate tax revenues.



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