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White Binder:

Policy MCIIT

Proposed Strategy to Develop Ministry Allocations

Preliminary draft – all information to be confirmed.
For discussion purposes only – no decisions yet made.

December 9, 2014   7:00 pm
Confidential Advice to Cabinet

Ministry of Finance | TBS

Purpose

Confirm proposed approach to developing ministry allocations for the 2015-16 planning process, which would inform the 2015 Document.

The proposed approach includes **2 distinct strategies** for developing preliminary planning allocations in 2015-16 and planning guidelines for the out-years.

<u>2015-16:</u>

- Focus on developing **detailed 2015-16 ministry allocations** that are constrained but plausible, subject to ministries developing appropriate plans
- Support printing detailed ministry expense information in the 2015 Document and preparing the Expenditure Estimates

<u>2016-17 and 2017-18:</u>

- Provide ministries with **preliminary planning guidelines** that are consistent with the government's 2014 Budget fiscal targets
- Support printing only sector-level expense information in the 2015 Document, consistent with the level of detail published in the 2014 Budget

Current Allocation-Setting Challenge – The Fiscal Gap

Current identified **fiscal gap** to be addressed through preliminary allocations is about $1.1 billion in 2015-16, $0.4 billion in 2016-17 and $2.2 billion in 2017-18.

The fiscal gap, compared to the 2014 Budget, is driven by:

- A **lower revenue outlook** of $0.8 - $0.9 billion in each year between 2015-16 and 2017-18.
- **Difficult to avoid ministry-specific expense risks** of $0.8 billion in 2015-16, $0.3 billion in 2016-17 and $1.9 billion in 2017-18 (OCEB, business support savings, etc.). Assumes that near-term risks (e.g. 2015-16) are harder to avoid, whereas medium-term risks (e.g. 2016-17) would not be taken on as part of the allocation-setting process.
- **Interest on debt savings** currently projected at $0.4 billion in 2015-16 and $0.6 billion in each of 2016-17 and 2017-18.

There is still **more information to come on revenue and expense projections** that could potentially impact the underlying fiscal outlook prior to the release of the 2015 Budget.

2015-16 Preliminary Planning Allocations

2015-16 Approach

Preliminary planning allocations for 2015-16 will be **constrained but plausible** and based on:

- Adjusting program expense to reflect the creation of a **$0.2 billion Budget Initiatives/Transformation Fund,** offset by an increase to the year-end savings target by $0.2 billion;
- **Reducing the reserve** by $0.2 billion to $1.0 billion;
- **Distributing ministry-specific savings targets** (e.g., business supports) across other ministries;
- Addressing **risks that are difficult to avoid** (e.g., high-likelihood risks identified by ministries);
- Incorporating **"fixed / sticky" expense** updates (e.g., pensions, tax expenditure forecasts, amortization, etc.);
- Incorporating **other technical adjustments** (e.g., consolidation updates); and,
- **Assigning Individual ministry one-time savings targets** (e.g., targets based on historical underspending, delays in program roll-out, etc.)

See Appendix for ministry-by-ministry details.

As part of the PRRT process, **ministries will be instructed to submit detailed plans for 2015-16** to meet these allocations including how one-time savings targets will be achieved.

- In addition, the concurrent work of the PRRT subcommittee will be to **identify "Quick Wins" for inclusion in the 2015 Document** as progress on $500 million Program Review savings target.

This approach would **support printing detailed ministry expense information in the 2015 Document** and preparing the Expenditure Estimates.

2015-16 Preliminary Allocations

$ Billions	2014 Budget Interim 13-14	2014 Budget Plan 14-15	2014 Budget 15-16	Change 15-16	Preliminary Allocation Outlook Actual 13-14	Preliminary Allocation Outlook Plan 14-15	Preliminary Allocation Outlook 15-16
Revenue	**115.7**	**118.9**	**124.5**	**(0.9)**	**115.9**	**118.9**	**123.5**
	2.0%	2.8%	4.7%		2.2%	2.6%	3.9%
Programs by Sector							
Health	48.8	50.1	51.0	(0.3)	48.9	50.1	50.7
	2.5%	2.6%	1.9%		2.8%	2.3%	1.2%
Education	23.8	24.8	25.3	(0.1)	23.6	24.8	25.2
	9.2%	4.2%	1.8%		8.2%	5.1%	1.5%
Postsecondary and Training	7.6	7.8	7.8	(0.0)	7.6	7.8	7.8
	3.5%	3.1%	-0.5%		3.2%	3.4%	-1.0%
Children's and Social Services	14.1	15.0	15.5	(0.1)	14.0	15.0	15.4
	3.3%	6.6%	3.2%		2.7%	7.2%	2.5%
Justice	4.2	4.3	4.4	(0.1)	4.2	4.3	4.4
	5.5%	1.7%	4.1%		5.1%	2.1%	2.6%
Other Programs	17.9	17.4	16.1	0.3	17.5	17.4	16.4
	0.1%	-3.0%	-7.3%		-2.2%	-0.7%	-5.6%
Total Program Expense	**116.4**	**119.4**	**120.1**	**(0.3)**	**115.8**	**119.4**	**119.8**
	3.7%	2.6%	0.6%		3.2%	3.1%	0.4%
Interest on Debt	10.6	11.0	12.0	(0.4)	10.6	11.0	11.6
	2.1%	4.1%	9.2%		2.2%	4.1%	5.4%
Total Expense	**127.0**	**130.4**	**132.1**	**(0.7)**	**126.4**	**130.4**	**131.4**
	3.6%	2.7%	1.4%		3.1%	3.2%	0.8%
Reserve	-	1.0	1.2	(0.2)	-	1.0	1.0
Surplus/(Deficit)	**(11.3)**	**(12.5)**	**(8.9)**	**-**	**(10.5)**	**(12.5)**	**(8.9)**

Note: numbers may not add due to rounding

2016-17 and 2017-18 Preliminary Planning Guidelines

2016-17 and 2017-18 Approach

Preliminary planning guidelines for 2016-17 and 2017-18 **will be set to meet the government's 2014 Budget fiscal targets** and will include:

- Adjusting program expense in each year to reflect the creation of a **$0.2 billion Budget Initiatives/Transformation Fund**; and,
- **Reducing the reserve** by $0.2 billion in each fiscal year to $1.0 billion.

For 2016-17, ministry allocations will be held to the 2014 Budget plan but will incorporate:

- Assumption that 2015-16 ministry-assigned **"one-time" savings targets do not carry forward** to 2016-17, to ensure that longer-term strategies align with broader program review and transformation approaches; and
- $0.2 billion **savings target distributed to MOHLTC** in order to address the fiscal gap in that year.

For 2017-18, the **2014 Budget plan already assumed significant constraint** which was not allocated on a ministry-by-ministry basis. The preliminary planning guidelines distributes this constraint across ministries through a **"top-down" approach that more or less maintains the 2014 Budget fiscal trajectory**.

- **About half of the constraint will be distributed to ministries** to align with average annual growth rates for major sectors published in the 2014 Budget
- The **remaining constraint will be held centrally** through decreasing contingency funds to $0.2 billion (from $0.6 billion in 2016-17) and increasing year-end savings targets to $1.5 billion (from $1.0 billion in 2016-17).

Ministries will be required to **submit long-term transformation plans to deliver on these allocations** as part of the PRRT process, with most decisions to be made after the 2015 Document process – to support the delivery of the 2015 Fall Economic Statement and the 2016 Document

This approach would **support printing only major sector-level expense details** for 2016-17 and 2017-18 in the 2015 Document.

Preliminary Allocations – Sector Detail

$ Billions	2014 Budget Interim 13-14	Plan 14-15	15-16	16-17	17-18	Avg. Annl Growth 13-14* to 16-17	Avg. Annl Growth 13-14** to 17-18	Change 15-16	16-17	17-18	Preliminary Allocation Outlook Actual 13-14	Plan 14-15	15-16	16-17	17-18	Avg. Annl Growth 13-14 to 17-18
Revenue	**115.7**	**118.9**	**124.5**	**129.4**	**134.8**	**3.8%**	**3.8%**	**(0.9)**	**(0.8)**	**(0.9)**	**115.9**	**118.9**	**123.5**	**128.6**	**133.9**	**3.7%**
	2.0%	2.8%	4.7%	3.9%	4.2%						2.2%	2.6%	3.9%	4.1%	4.2%	
Programs by Sector																
Health	48.8	50.1	51.0	52.1		2.2%		(0.3)	(0.2)		48.9	50.1	50.7	51.8	52.6	1.9%
	2.5%	2.6%	1.9%	2.1%							2.8%	2.3%	1.2%	2.3%	1.5%	
Education	23.8	24.8	25.3	25.6		2.3%		(0.1)	(0.0)		23.6	24.8	25.2	25.6	25.6	2.1%
	9.2%	4.2%	1.8%	1.1%							8.2%	5.1%	1.5%	1.3%	0.4%	
Postsecondary and Training	7.6	7.8	7.8	7.8		1.0%		(0.0)	0.0		7.6	7.8	7.8	7.8	7.7	0.6%
	3.5%	3.1%	-0.5%	0.5%							3.2%	3.4%	-1.0%	1.1%	-1.2%	
Children's and Social Services	14.1	15.0	15.5	15.6		3.5%		(0.1)	(0.0)		14.0	15.0	15.4	15.6	15.6	2.8%
	3.3%	6.6%	3.2%	0.8%							2.7%	7.2%	2.5%	1.3%	0.0%	
Justice	4.2	4.3	4.4	4.3		0.8%		(0.1)	0.0		4.2	4.3	4.4	4.3	4.3	0.6%
	5.5%	1.7%	4.1%	-3.2%							5.1%	2.1%	2.6%	-1.8%	-0.7%	
Other Programs	17.9	17.4	16.1	14.9		-6.0%		0.3	0.3		17.5	17.4	16.4	15.2	13.4	-6.4%
	0.1%	-3.0%	-7.3%	-7.5%							-2.2%	-0.7%	-5.6%	-7.5%	-11.4%	
Total Program Expense	**116.4**	**119.4**	**120.1**	**120.2**	**119.4**	**1.1%**	**0.8%**	**(0.3)**	**0.1**	**(0.1)**	**115.8**	**119.4**	**119.8**	**120.3**	**119.3**	**0.8%**
	3.7%	2.6%	0.6%	0.1%	-0.7%						3.2%	3.1%	0.4%	0.4%	-0.8%	
Interest on Debt	10.6	11.0	12.0	13.3	14.2	7.9%	7.7%	(0.4)	(0.6)	(0.6)	10.6	11.0	11.6	12.6	13.6	6.5%
	2.1%	4.1%	9.2%	10.3%	7.2%						2.2%	4.1%	5.4%	8.8%	7.8%	
Total Expense	**127.0**	**130.4**	**132.1**	**133.5**	**133.6**	**1.7%**	**1.4%**	**(0.7)**	**(0.6)**	**(0.7)**	**126.4**	**130.4**	**131.4**	**132.9**	**132.9**	**1.3%**
	3.6%	2.7%	1.4%	1.0%	0.1%						3.1%	3.2%	0.8%	1.1%	0.0%	
Reserve	-	1.0	1.2	1.2	1.2	na	na	(0.2)	(0.2)	(0.2)	-	1.0	1.0	1.0	1.0	na
Surplus/(Deficit)	**(11.3)**	**(12.5)**	**(8.9)**	**(5.3)**	**-**	**na**	**na**	**-**	**-**	**-**	**(10.5)**	**(12.5)**	**(8.9)**	**(5.3)**	**-**	**na**

* As published in the 2014 Budget (i.e. average annual growth between 2013-14 and 2016-17, using 2013-14 interim amounts as the base).

** Using 2014 Budget plan and 2013-14 Public Accounts actuals (i.e. average annual growth between 2013-14 and 2017-18, using 2013-14 actual amounts as the base).

Note: numbers may not add due to rounding

Next Steps

- **December 18, 2014** – Preliminary allocations developed and issued with instructions for ministries to develop and submit detailed 2015-16 plan
- **January 2015** – Ministries develop and submit plans
- **February 2015** – TB/MBC review of ministry plans
- **February 2015 with final development of Document in March 2015** – Key decisions regarding numbers and Document initiatives
- **Starting in February 2015 and on-going** to support the 2015 FES and 2016 Document – TB/MBC review of long-term transformation plans to achieve 2016-17 and 2017-18 targets based on PRRT assessments and opportunities

Appendix

Preliminary Allocations – 2015-16 Ministry Details

Preliminary 2015-16 Planning Allocation

$ Millions	Approved Outlook	Ups	Downs	Net Change	Preliminary Allocation
Health Sector	**51,016.4853**	**-**	**(340.2583)**	**(340.2583)**	**50,676.2270**
Education Sector	**25,281.9860**	**28.4000**	**(88.4000)**	**(60.0000)**	**25,221.9860**
Postsecondary and Training Sector	**7,798.0271**	**23.8400**	**(59.2470)**	**(35.4070)**	**7,762.6201**
Children's and Social Services Sector					
Children and Youth Services	4,344.8876	-	(20.3288)	(20.3288)	4,324.5588
Community and Social Services	11,142.4312	8.3028	(80.0000)	(71.6972)	11,070.7340
Total Children's and Social Services Sector	**15,487.3188**	**8.3028**	**(100.3288)**	**(92.0260)**	**15,395.2928**
Justice Sector					
Attorney General	1,776.7858	-	(32.7347)	(32.7347)	1,744.0511
Community Safety and Correctional Services	2,650.2644	-	(32.0007)	(32.0007)	2,618.2637
Total Justice Sector	**4,427.0502**	**-**	**(64.7354)**	**(64.7354)**	**4,362.3148**
Other Sector					
Aboriginal Affairs	75.1364	-	-	-	75.1364
Agriculture, Food and Rural Affairs	1,025.0630	100.0000	(110.0000)	(10.0000)	1,015.0630
Auditor General, Office of the	16.4267	-	-	-	16.4267
Assembly, Office of the	158.8594	-	-	-	158.8594
Cabinet Office	28.7448	-	-	-	28.7448
Chief Electoral Officer, Office of the	118.2470	-	(100.0000)	(100.0000)	18.2470
Citizenship and Immigration ↓$ 123.45	123.4498	-	-	-	123.4498
Consumer Services	23.1525	-	-	-	23.1525
Economic Development and Trade	707.1542	228.2551	(17.0000)	211.2551	918.4093
Energy	894.5791	330.0000	(30.0000)	300.0000	1,194.5791
Environment	489.1156	-	-	-	489.1156
Finance	2,275.1604	-	(50.0000)	(50.0000)	2,225.1604
Francophone Affairs, Office of	4.1201	3.3429	-	3.3429	7.4630
MGS (excl. Service Ontario)	767.6334	25.0000	(25.0000)	-	767.6334
MGS Pensions	1,077.0000	-	-	-	1,077.0000
Service Ontario	298.6331	-	-	-	298.6331
Infrastructure	582.9660	-	(121.4990)	(121.4990)	461.4670
Labour	305.9168	-	-	-	305.9168
Lieutenant Governor, Office of the	1.3295	-	-	-	1.3295
Municipal Affairs and Housing	1,073.6795	-	-	-	1,073.6795
Natural Resources	776.3905	-	-	-	776.3905
Northern Development and Mines	773.5199	4.3971	-	4.3971	777.9170
Ombudsman Ontario	11.2881	-	-	-	11.2881
Premier, Office of the	2.7030	-	-	-	2.7030
Teacher's Pension Plan	227.0000	-	-	-	227.0000
Panam/Parapan Games Secretariat	830.9991	50.5390	-	50.5390	881.5381
Tourism, Culture and Sport	1,235.5360	68.9173	(50.0000)	18.9173	1,254.4533
Transportation	3,398.0232	20.0000	(15.0000)	5.0000	3,403.0232
Total Other Sector	**17,301.8272**	**830.4514**	**(518.4990)**	**311.9524**	**17,613.7796**

Note: Approved outlook reflects 2014 Budget plan plus in-year approvals. Ministry structure is based on 2014 Budget.