Budget Priorities Discussion

Premier,

We have an hour with you on Tuesday to discuss 2017 Budget priorities. I am hoping we could use that time to recap, at a high level, on PRRT, but spend most of our time on scoping out themes and opportunities for next year's Budget. We will also use some of the time to flag the decisions coming your way in January for your first of a series of MMMP(s) leading to the 2017 Budget.

Budget

The landscape has shifted since the 2016 Budget. We are working with the federal government on eCPP, and between modernizing beverage alcohol and Hydro One, our asset optimization strategy is near completion, just to name a few key priorities from previous budgets we've already acted on. As we start thinking about themes and narrative for the upcoming document, we wanted to spend some time with you to think critically about the frame through which we make decisions and ultimately set the pillars and chapters of the upcoming Budget. Is it time to re-think Finance's acropolis?

In effect, the Government established a new framework in September with the Speech from the Throne. We identified health, education, jobs and skills, helping people in their everyday lives, and strong fiscal management as our government's core priorities for the remainder of our mandate. In support of this new agenda, we are starting to re-position our investment priorities accordingly. There's alignment between where the system wants to go and where we believe the priorities are, and we are seeing these come through Ministry PRRT submissions. This upcoming Budget could be the right time to more formally superimpose our policy agenda on our fiscal plan.

We don't need to decide what the new pillars need to be at this moment, but leading into budget decision making, it would be helpful to have a new strategic framework in order to start organizing investment priorities and drafting a narrative.

Keeping status quo and building on the frame we established in the 2014 Budget is also an option. Should we consider a re-fresh, here's a straw dog of what the new frame could look like:

1. Health

2. Education

3. Skills and Jobs

4. Helping people in their everyday lives
5. Fiscal Management

At this stage in the planning process, we are looking for your general comfort with the proposed approach. We will bring forward a more complete breakdown of the profile initiatives when we've had more time to work on scoping and costing.

PRRT Update:

Ministry plans were due on November 24 and TB/MBC will begin considering them on December 14. We had a small window for analysis, and necessary revisions to their plans. We assessed the plans based on how complete they were; whether or not they met allocation; and if the decision points were discreet and well-defined enough in order to facilitate future discussions. Recognizing how challenging preliminary allocations were for ministries this year, we asked for realistic plans for delivering existing programs and new initiatives that were not flagged for new funding. We also took a more focused approach to understanding any and all savings proposals and offset opportunities that are being brought forward for consideration.

Compared to the 2016 Budget, the impact of in-year investment decisions and the Pension Adjustment created pressures that were partially mitigated by higher revenue, lower interest on debt expense, and reduced prudence in the 2016 FES. These changes, in addition to the recent downward revision in the equalization entitlement forecast, results in a fiscal gap of $1.8 billion in 2017-18 and $2.3 billion for 2018-19

- This fiscal gap widens with the additional impact of PRRT submitted plans coming in above preliminary allocations.
- Without implementing additional revenue and expense tools, the deficit could potentially reach $4.2 billion in 2017-18 and $5.7 billion in 2018-19.
    - Since October, the range of the fiscal gap has widened mostly as a result of lower equalization entitlements mentioned above, and ministry PRRT submissions coming in above preliminary allocations.

Here's how the system is currently interpreting a 4.2B expenditure pressure in 17/18:

1) 2.1B is due in-year approvals and preliminary allocation changes. These are investments we committed to after the Budget, like hydro relief, and the in-year hospital investment.
2) 1B accounts for ministry submitted plans with additional FTE asks and program pressures, including utilization pressures on open ended programs we have legislated requirements to fund like social assistance, prescription drugs and expensive cancer treatment.
3) 1.3B of the expenditure pressure accounts for funding towards scalable priority initiatives like child care and additional funding health care.

This pressure assumes:

- Approval to fund all new programs and initiatives in 17/18
- All approved programs will have ‘implementation-ready’ proposals in Q1 of 17/18
- No trade-offs between and strategic prioritization and repurposing of investments

Approach to PRRT instructions in respect of “scalable priority initiatives”

At this time, space has not yet been identified within the fiscal plan to support costs for approved and new initiatives beyond those funded through allocations. However, over the coming weeks and months we will consider various revenue and expense levers to create room for additional program expenditures.

In order to make sure new program ideas are well-developed for budget-time in 2017, 2018 and beyond, we asked ministries to prepare scalable submissions related to items below on one of two bases, either as a possible 2017-18 budget initiative, which could be funded as early as the 2017-18 budget or at a later date when funds became available, or as a 2018 or later initiative with funds to be partially off-set with savings to be identified through program transformation or prioritization within the line Ministry.

The following scalable priority initiatives/investment initiatives were identified in ministry PRRT plans:

- Highly Skilled Workforce investments
- More funding for Project Momentum
- Early years and childcare space expansion
- Social assistance rate increase and reforms
- Developmental Service
- Priority health investments
- Corrections transformation
- Youth Jobs Strategy, and youth strategies generally like the Black Youth Action Plan
- GO Transit/RER operating subsidy
- Other Capital expense

We are currently evaluating these proposals, and other less high-profile investment opportunities not included in this list. An important first step is to identify:

1) Whether the proposed priority investment is:

   a) An identified priority;
   b) Is it a priority for 17/18, or can we consider for 18/19?

2) Scalability of options – are we comfortable with phasing in investments over time, and considering program re-scoping for a more affordable investment?

3) Horizontal policy intersections and avoiding overlap and duplication as much as possible.

This work has started in earnest and we hope to have a more complete menu of options for you in January. We may irritate line ministries, though slightly, along the way so we just wanted to make sure we had your concurrence before pursuing this approach any further. On the third point, for example, we've started to think about how we can further align MEDG's Business Growth Initiative with MAESD's Highly Skilled Workforce Strategy. Similarly, we are also considering options to further streamline investments targeted towards youth.

A number of important updates including: tax revenue, economic conditions, external factors, pension assets accounting review, federal transfers, and political considerations, including investment quantum for signature investment priorities (electricity/childcare etc.) will determine how far we can go with investments and how deep we go in trying to minimize program spending pressure through intensive expenditure management strategies. The fiscal plan hasn't changed much since the Fall Economic Statement, though the ministry has revised a few economic assumptions and increased the downside risk accordingly.

Our hope is that by the time we get to MMMP in January, we will have a more accurate picture of the program pressures tracking through PRRT, what revenue looks like, and the size of fiscal effort that will be required to close the gap. Proposed AGENDA for our discussion:

1) **PRRT** – high level assessment of ministry plans and fiscal picture based on information to date (20mins)
2) **Priority Investments** – high level overview of proposed investments and timeline considerations (20mins)
3) **Budget** - discussion about possible theme and narrative (20mins)

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