Fiscal Architecture

Office of the Budget MINISTRY of FINANCE

TBS

OFFICE OF ECONOMIC POLICY OEP MINISTRY OF FINANCE

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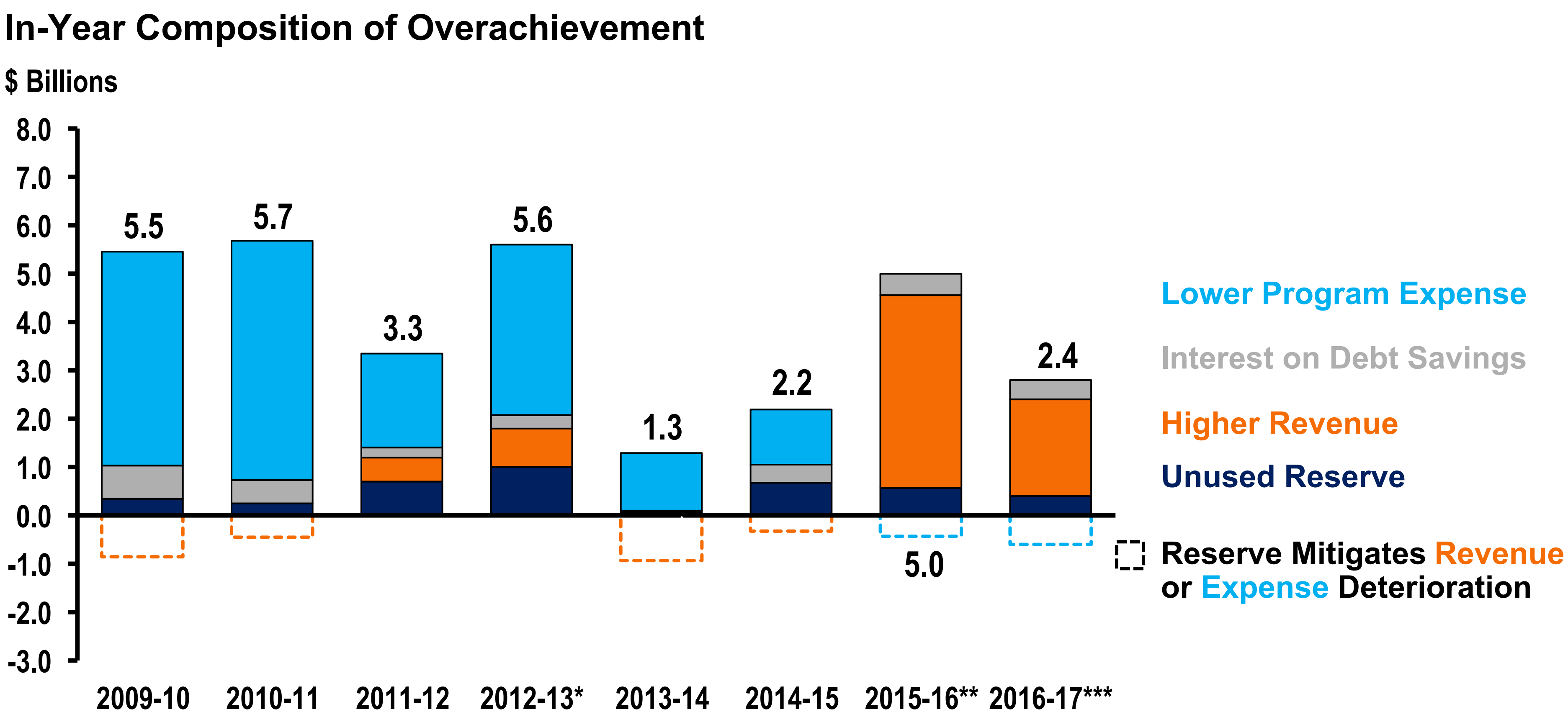
Preliminary Draft – Numbers to be confirmed

Purpose

- Confirm overall approach to the Province's fiscal architecture, including key elements:
  - **Shifting Provincial fiscal policy** from deficit reduction to managing within commitments to ongoing balanced budgets;
  - Key building-blocks of **balanced budget fiscal architecture**;
  - **Degree of new investments**;
  - **Calibration of tools and trade-offs between revenue and/or expense** to achieve balanced budget projections.
- Snapshot of "restoring balance" narrative for the 2017 Document.
- Discuss next steps and key decisions required to **lock numbers, and develop the narrative**.

Shifting Fiscal Policy Framework

Fiscal Policy and Deficit Reduction



*Program expense overachievement in 2012-13 includes $1.3 billion in one-time education savings. Program spending in 2013-14 was lower by $1.2B due to lower forecast in education and social sectors, as well as measures to align public service retiree benefits. In 2014-15, program spending was lower by $1.2B due to lower forecast in education, post-secondary and social sectors, and lower funding requirements for weather-related agriculture programs.

**Higher revenue in 2015-16 reflects a one-time improvement of $1.5 billion from the sale of Hydro One shares.

***Based on Q3 Finances outlook.

Shifting Fiscal Policy for Balanced Budgets

Deficit Reduction Focus	Balanced Budgets Focus
Fiscal Targets: ▪ Declining year-over-year deficit ▪ In-year overachievement on deficit target	**Fiscal Targets**: ▪ No directionality; flat-lined around zero ▪ In-year underachievement tolerable, but cannot be "structural" in nature
Revenue: ▪ Prudent in the face of recovering economy and unstable outlook ▪ Tax policy and other measures to strengthen growth	**Revenue**: ▪ Prudence is proportional to certainty of economic outlook and support for investments ▪ Policy and other measures to support growth, and to ensure integrity of base revenue
Expense: ▪ Constrained allocations supported by savings targets, compensation freezes, and ongoing transformation ▪ Limited and focused new investments	**Expense**: ▪ Allocations need to reflect cost and demand of current programs, while promoting modernization, transformation and a sustainable cost curve ▪ More room/ flexibility for new investment/ repurpose existing funding
Prudence: ▪ Larger contingency and reserve to help overachieve on fiscal target, and fund future investments /compensation pressures	**Prudence**: ▪ Contingency only there for unforeseen costs ▪ Reserve to be reduced proportional to forecast uncertainty, and/or create room for investment

Fiscal Outlook

Preliminary Document Outlook: Building Blocks

In addition to incorporating updated revenue and expense information, as well as government decisions made since the *2016 Budget*, the preliminary 2017 Document fiscal outlook also includes the following key building blocks:

High-Yield Revenue Assumptions

$1.3 billion in 2017-18, $1.8 billion in 2018-19 and $2.2 billion in 2019-20.

Targeted Tax Changes

$0.4 billion in 2017-18, $0.7 billion in 2018-19 and $1.0 billion in 2019-20.

Document Initiatives Envelope

$200 million per year.

Scalable Priority Initiatives

$0.8 billion in 2017-18, $1.4 billion in 2018-19 and $1.7 billion in 2019-20.

Strengthening Prudence

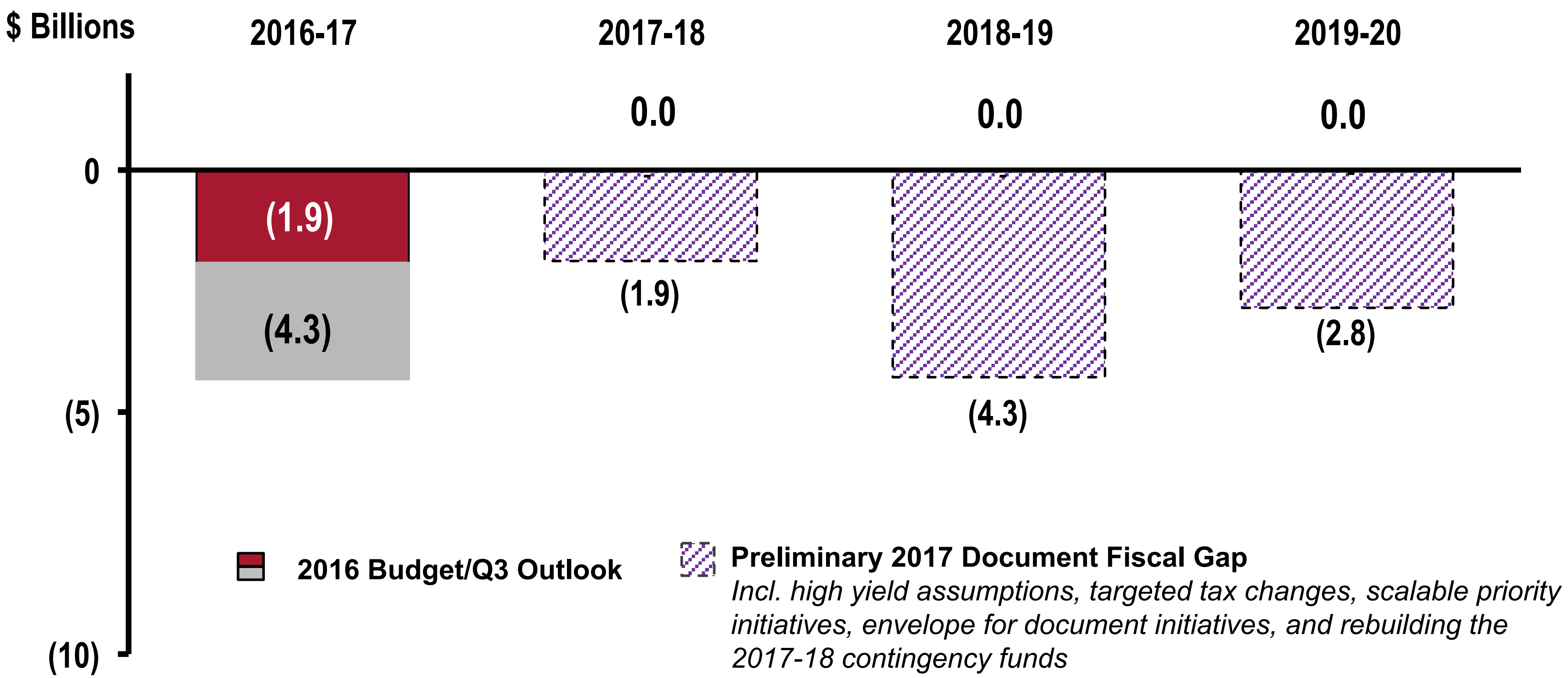
Rebuilding the contingency fund to $0.6 billion in 2017-18.

Fiscal Anchors: Ongoing Balanced Budgets

Prudent Debt Management: Maintaining Low Interest-on-Debt Expense Relative to Revenue, and Declining Net Debt-to-GDP

Fiscal Gap to Manage

- The net impact of all revenue and expense changes since 2016 Budget as well as new targeted tax changes, high-yield revenue assumptions and new investments being considered for the 2017 Document results in a gap of **$1.9 billion in 2017-18, $4.3 billion in 2018-19, and $2.8 billion in 2019-20.**

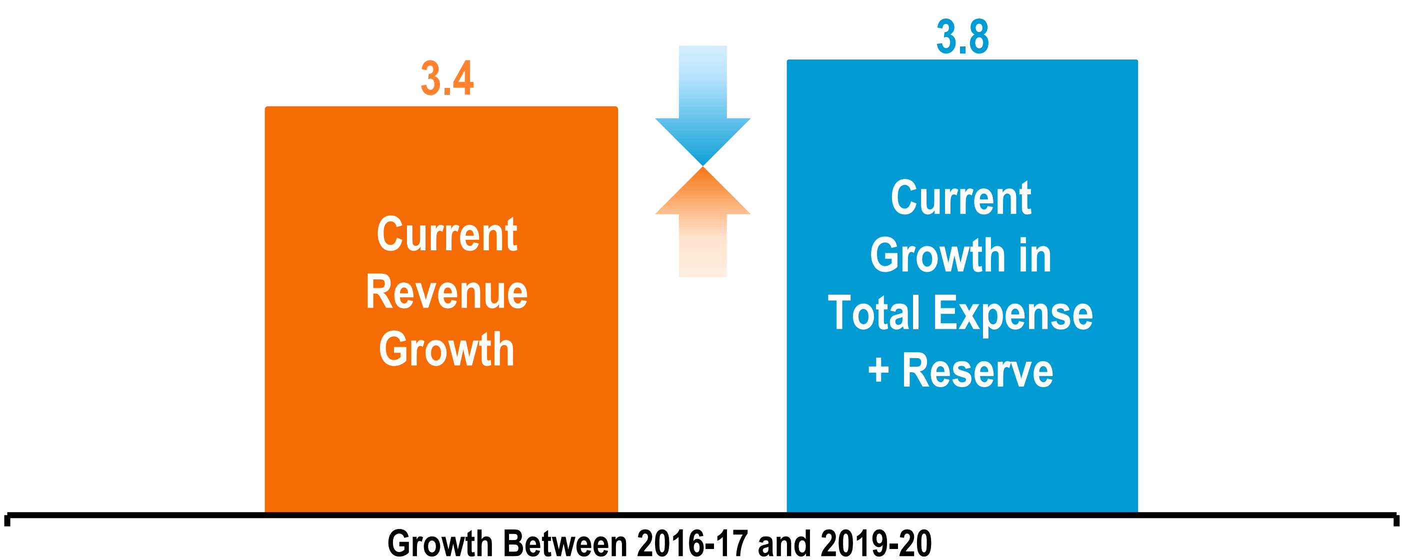


Fiscal Architecture Scenario

Approach to Fiscal Tools

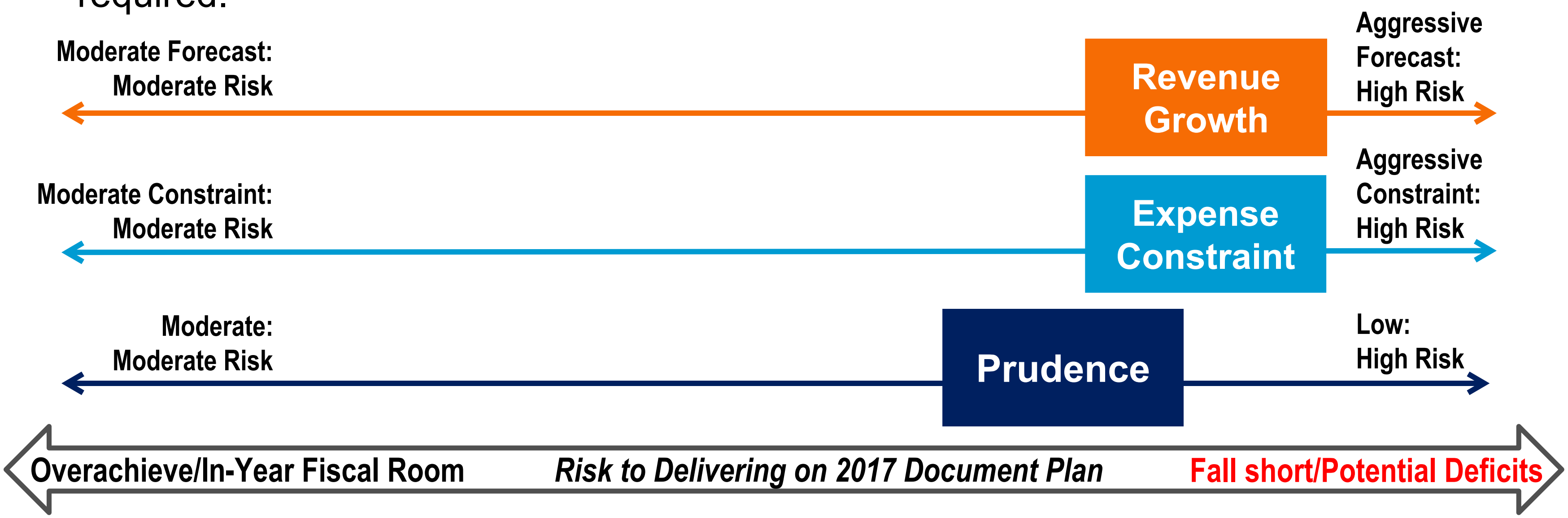
- The 2017 Preliminary Document fiscal outlook shows that the impact of **spending growth and building in the requirement for a reserve exceeds revenue growth** over the outlook period.
- Eliminating the remaining deficit and achieving balance, while providing room for investments will require significant fiscal effort to **either increase revenue and/or constrain program spending**, so that revenue and expense are aligned – which will also lead to ongoing fiscal sustainability.
  - Achieving this will require considering all viable revenue and expense tools/levers – with a view to a long-term, rather than short-term perspective.
- An ongoing **mismatch between revenue and expense growth results in a structural deficit**.

Fiscal Effort Required to Align Revenue and Expense



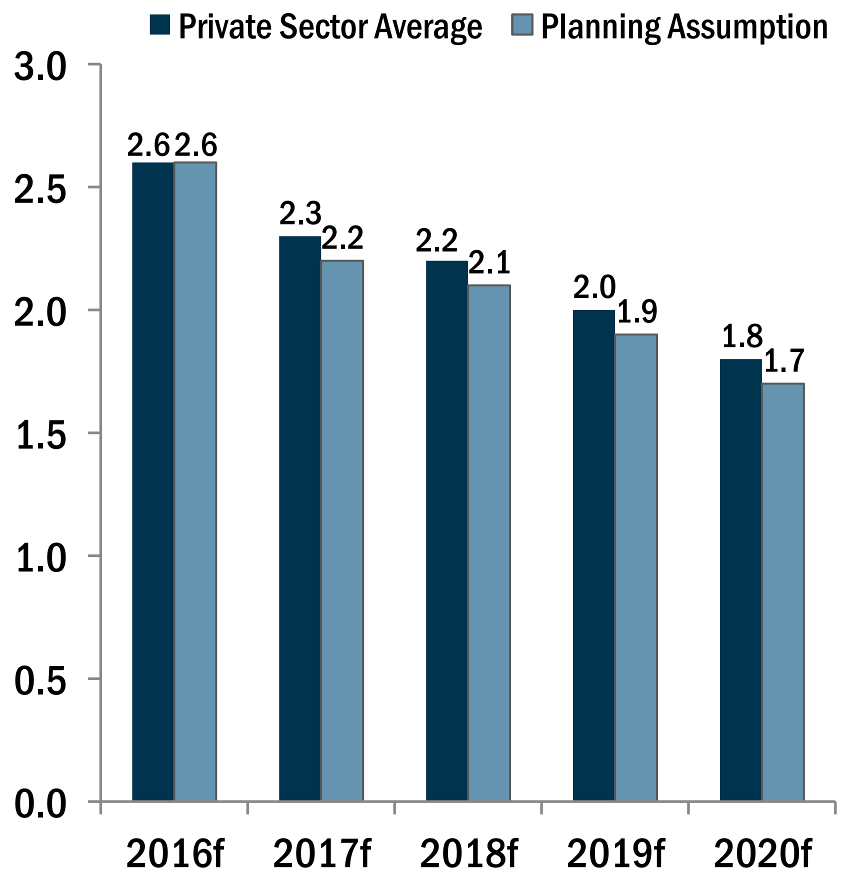
Scenario: Finding a Balance

- One way to print a balanced budget forecast is to build in immediate investments supported by a strengthening and **aggressive revenue forecast**, **reduced prudence**, and other measures such as **savings targets and reducing approved in principle** allocations.
  - This approach means **the government will be scrutinized/questioned** on the reasonableness of revenue assumptions and robustness of expenditure management plans. **This risk is heightened in areas where potential impacts can be predicted**, but are not being included in the fiscal plan for 2018-19 and 2019-20.
- It is also important to note that this fiscal architecture mix **runs the risk of not being able to adjust to adverse events post-Document** -- providing limited room for error, reduced flexibility for unforeseen (or known downside risks) and potential further investments.
  - Robust **post-Document implementation plan and in-year management strategy** will be required.

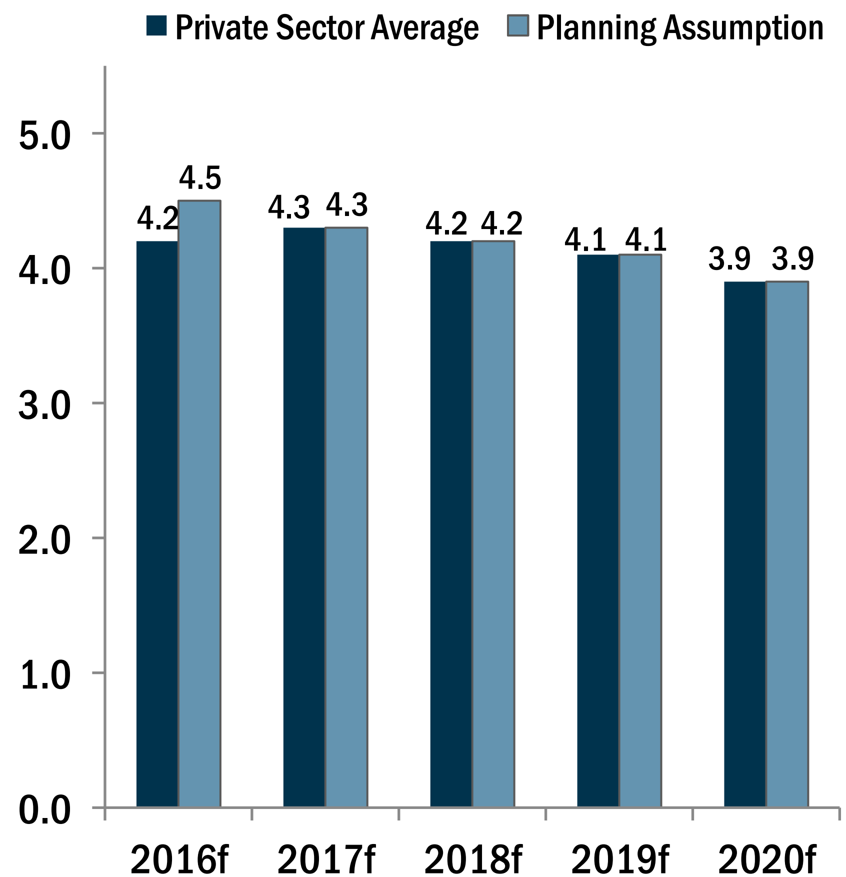


Economic Planning Assumptions

Real GDP Growth
Percent



Nominal GDP Growth
Percent



Balance Scenario: Summary of Revenue Assumptions

*Revenue Assumptions**

$ Billions	2017-18	2018-19	2019-20
Remove Nominal GDP Prudence	**0.1**	**0.2**	**0.3**
Removes prudence from the nominal GDP forecast			
Additional High Yield Tax Assumptions	**0.6**	**0.7**	**0.6**
Includes zero PIT tax planning assumption, a higher CIT yield beginning in 2017-18, and stronger revenue from HST due higher share for Ontario in 2016 and a stronger housing market.			
Revenue Integrity Targets	**0.1**	**0.2**	**0.3**
Assumes a successful and aggressive revenue integrity strategy including additional revenue from GBEs			
Asset Optimization - Additional $1/share	**0.1**	**-**	**-**
Assumes Hydro One shares sell at an additional $1/share			
Hold Equalization at 2017-18 level	**-**	**0.7**	**-**
Assumes equalization payments remain at 2017-18 ($1.4 billion) level in 2018-19, while all economic/fiscal data suggests it will decline.			
IFRS Accounting Impact for OPG/H1	**-**	**0.5**	**0.7**
Excludes IFRS accounting impacts for OPG/Hydro One beyond 2017-18			
Total Potential Revenue Tools	**1.0**	**2.4**	**1.9**

** In addition to the high-yield assumptions and targeted tax measures built into the preliminary Document outlook*

Risks

- Aggressive revenue forecasts may be challenging to maintain/defend, and could be subject to criticism by external stakeholders (e.g., FAO, Credit rating agencies, private sector economists, etc).
- Overall uncertainty in the economic outlook, particularly from the US and the broader global outlook, could impact the revenue outlook.
- Recent advice from economists recommended increasing prudence, due to current heightened uncertainty.
- Assumes there is no IFRS Accounting Impact for OPG/Hydro One beyond 2017-18 – which current estimates assume will not be able to be sustained over time.
- Removing nominal GDP prudence adds significant risk to the forecast.
- Approach to PIT contains extra risk related to potential tax planning that occurred in 2015 and could result in significant downside revenue in 2016-17 Public Accounts and over the forecast period

Revenue Outlook Summary

$ Billions	2017-18	2018-19	2019-20	Average Annual Growth 2016-17 to 2019-20
Taxation Revenue	100.2	105.5	110.3	4.9%
Federal Transfers	25.7	25.4	24.9	0.7%
GBEs Net Income	5.0	6.0	6.6	7.9%
Other NTR	10.5	8.2	8.0	(2.1%)
Total Revenue	**141.3**	**145.2**	**149.8**	**3.9%**

$ Billions	2017-18	2018-19	2019-20
Change from 2016 Budget			
Taxation Revenues	4.3	5.3	6.2*
Total Revenues	3.6	3.3	5.1*
Current Revenue Assumptions			
High-Yield Revenue Assumptions			
Previous	1.3	1.8	2.2
New	1.0	2.4	1.9
Total High-Yield Revenue Assumptions	**2.3**	**4.2**	**4.1**
Tax Measures	**0.4**	**0.7**	**1.0**
Total Current Revenue Assumptions	**2.7**	**4.9**	**5.1**

Key Average Growth Rates (2016-17 to 2019-20)

	Growth Rate	Ratio
Nominal GDP	4.2	1.18
Tax Revenues	4.9	
Total Revenues	3.9	

This ratio has historically been 0.9 (see slide 26)

*2019-20 was not published in the *2016 Budget*

Revenue Tools – Confirming Targeted Tax Measures

$ Millions	2017-18	2018-19	2019-20
Increases to Tobacco and Alcohol Taxes*			
Tobacco Tax: Increase to $40/carton by 2019-20	40	135	215
Raise Alcohol Tax by 50 cents/24 of beer	14	41	59
Total Tobacco/Alcohol Tax	**54**	**176**	**274**
Increases to the Insurance Premium Tax	270	380	395
Increase Planned Education Property Tax (potentially tied to Education investments—see note below)	85	180	310
Total Targeted Tax Measures	**409**	**736**	**979**

Note: The increase to planned education property tax noted above would offset up to 15% of the potential additional investments in EDU's allocation relative to the 2016 Budget. Based on the current fiscal architecture scenario, Education sector investments will grow by almost $2.3 billion between 2016-17 and 2019-20, for an average annual growth rate of 2.8% -- up from the 1.2% growth published in the 2016 Budget.

*Tobacco tax increases are equivalent to an additional cost of $2.00 per carton of 200 cigarettes in 2017-18 and $4.00 in both 2018-19 and 2019-20. Alcohol tax increases are equivalent to an additional 50 cents per 24-case of beer (by November 2018). This would bring the total increase to $1.50 including the 25 cent per year increase over four years announced in the *2015 Budget*.

$ Millions	2017-18	2018-19	2019-20
Other Potential Tax Tools			
High Income PIT Option	0 to 610	0 to 630	0 to 630

Balance Scenario: Summary of Potential Expense Tools

Expense Tools

$ Billions	2017-18	2018-19	2019-20
Approved in Principle Levers	**(0.5)**	**(0.3)**	**(0.3)**
Assumes reductions to allocations that are already approved-in-principle.			
Reducing funding for Scalables*	**(0.1)**	**(0.4)**	**(0.6)**
Includes limiting funding of scalable priority initiatives to $0.7 billion in 2017-18, $1.0 billion in 2018-19 and $1.1 billion in 2019-20.			
Program Review Targets	**-**	**(1.0)**	**-**
Program review targets of $1.0 billion in 2018-19 in addition to existing year-end savings target of $1.2 billion			
Cap and Trade Expense in-plan	**-**	**(0.3)**	**(0.3)**
Assumes $0.3 billion fiscal benefit from allocating cap-and-trade proceeds to CCAP capital projects that can be amortized.			
Addt'l Contingency and Prudence	**(0.3)**	**0.1**	**0.2**
Includes shifting $0.3 billion in expense from 2017-18 to 2018-19; decreases contingency fund in 2018-19 by $0.1 billion and increases it in 2019-20 by $0.2 billion			
Total Potential Expense Tools	**(0.9)**	**(1.9)**	**(0.9)**

* Represents savings relative to recent planning assumptions. Compared to ministries' initial high-end requests, the proposed level of scalable options is lower by ($0.7), ($1.5) and ($2.2) billion in 2017-18 through 2019-20.

Risk

- Includes program review and other savings targets which will be difficult to achieve in 2018-19 and beyond.
- Reduced prudence (e.g., contingency funds, higher savings targets, etc.) limits ability to respond to unforeseen circumstances.
- Plan has limited flexibility to fund additional expense without revenue or deficits (e.g., potential OMA agreement, other collective bargaining, contaminated sites, land claims settlement, etc.).
- Does not include any new capital projects or cost matching requirements for additional federal infrastructure funding.
- Funding for previously announced capital projects with cap-and trade proceeds may result in criticism from external stakeholders (e.g., FAO, Environmental Commissioner).

Potential Program Spending Profile

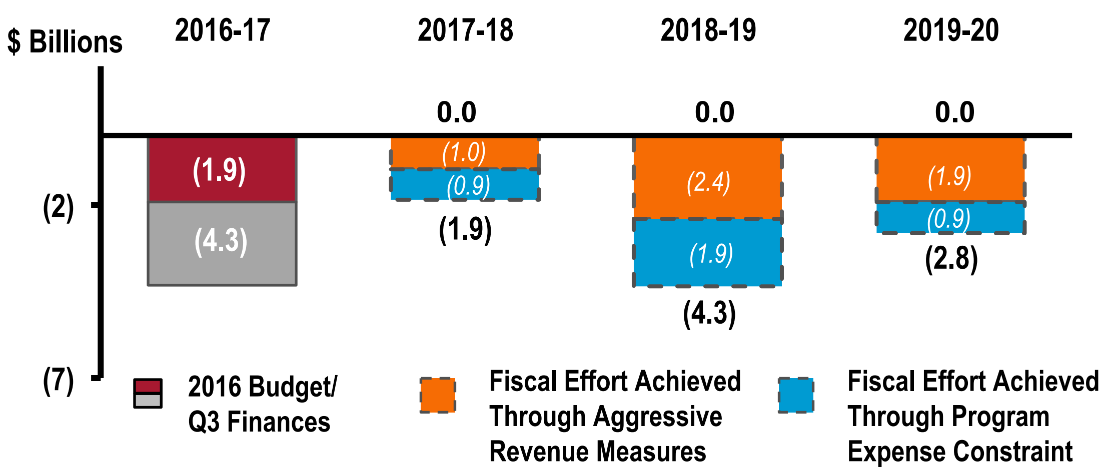
$ Billions	Interim 2016-17	Plan 2017-18	Outlook 2018-19	2019-20	Avg. Ann. Growth 2015-16 to 2019-20	Avg. Ann. Growth 2016-17 to 2019-20
Health	52.3	53.6	55.8	57.6	*3.0%*	*3.3%*
Education	25.7	26.6	27.3	28.0	*2.8%*	*2.8%*
Postsecondary and Training	7.8	8.4	8.3	8.5	*2.5%*	*2.7%*
Children's and Social Services	16.1	16.7	17.2	17.4	*2.8%*	*2.5%*
Justice	4.6	4.7	4.7	4.8	*1.3%*	*1.1%*
Energy*	0.9	2.2	2.2	2.2	*15.2%*	*32.9%*
Other Programs	15.9	16.9	16.7	18.2	*3.4%*	*4.6%*
Total Program Expense	**123.4**	**129.1**	**132.3**	**136.5**	***3.1%***	***3.4%***

Net Change from 2016 Budget	**1.2**	**4.9**	**4.7**	**7.0**	***n/a***	***n/a***

*Included in the Other Programs Sector as published in the Budget, which brings the Other Programs Sector growth to 4.4% from 2015-16 to 2019-20, and 6.6% from 2016-17 to 2019-20.

Scenario to Achieve Balance

$ Millions	Plan 2017-18	Outlook 2018-19	2019-20	Avg. Ann. Growth 2015-16 to 2019-20	Avg. Ann. Growth 2016-17 to 2019-20
Revenue	**140.3**	**142.8**	**147.8**	***3.6%***	***3.4%***
Revenue Tools	*1.0*	*2.4*	*1.9*		
Revenue Outlook to be Published	**141.3**	**145.2**	**149.8**	***3.9%***	***3.9%***
Program Expense	**129.9**	**134.2**	**137.4**	***3.2%***	***3.7%***
Program Expense Constraint	*(0.9)*	*(1.9)*	*(0.9)*		
Program Expense to be Published	**129.1**	**132.3**	**136.5**	***3.1%***	***3.4%***
Interest on Debt Outlook	11.6	12.1	12.3		
Total Expense	**140.6**	**144.4**	**148.8**	***3.1%***	***3.4%***
Reserve	0.7	0.8	1.0		
Surplus/(Deficit)	**0.0**	**0.0**	**0.0**		



- In 2017-18 the fiscal effort required for revenue and expense is roughly equal and requires taking on almost all available tools.
- Over the outlook, program expense is growing at 3.1 per cent compared to 1.9 per cent published in the *2016 Budget*. (Total expense is growing at 3.1 per cent compared to 2.2 per cent)
- Program expense increases by $4.9 billion in 2017-18 compared to the 2016 Budget plan.

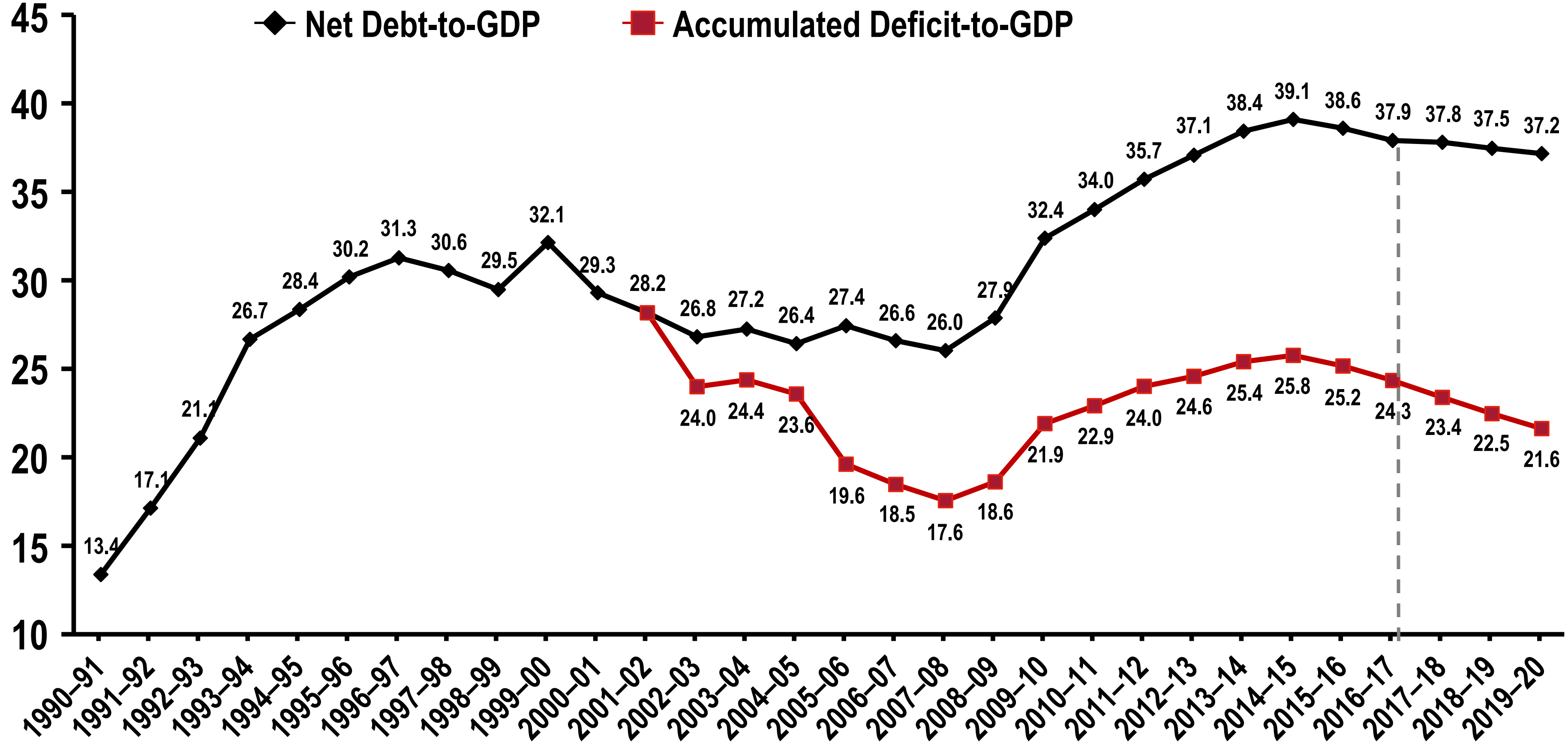
Balance Scenario: Other Tools and Items Not Currently Included

$ Billions	2017-18	2018-19	2019-20
Revenue Tools Excluded			
Unconditional Federal Infrastructure Funding Assumption	-	0.5	0.5
Perpetuate Holding Equalization at 2017-18 level ($1.4B)	-	-	0.7
High Income PIT Options	0.0 – 0.6	0.0 – 0.6	0.0 – 0.6
Total Revenue Tools Excluded	0.0 – 0.6	0.5– 1.1	1.2– 1.8
Expense Tools Excluded			
Continue Program Review Targets	-	-	(0.5)
Deepen Program Review Targets	(0.1)	-	(1.0)
Adjust Contingency Fund Further	-	-	(0.6)
Assume Changes to HOOPP and CAATPP Governance	-	(0.8)	(0.9)
Total Expense Tools Excluded	(0.1)	(0.8)	(3.0)
Total Tools Excluded	0.1 – 0.7	1.3 – 1.9	4.2 – 4.8

Balanced scenario also excludes:

- Impact of 2017 Federal Budget on Ontario's finances
- Other investments currently under consideration, including new capital that may not have immediate fiscal impacts, but increases net debt.
- Any final information that could become available over the next two weeks.

Illustration to Achieve Balance – Net Debt-to-GDP



Notes: Historical Net Debt-to-GDP was revised to reflect historical GDP released by Statistics Canada in November 2016.
Net Debt has been restated to include Broader Public Sector Net Debt, starting in 2005–06. Net Debt-to-GDP shown is based on balanced budgets for every year in the plan, 4 percent annual nominal GDP growth, and the $160 billion Capital Plan remaining unchanged from the FES.
Source: Ontario Ministry of Finance.

Factors for Growth in Net Debt

Per Cent

Source: Ontario Financing Authority.

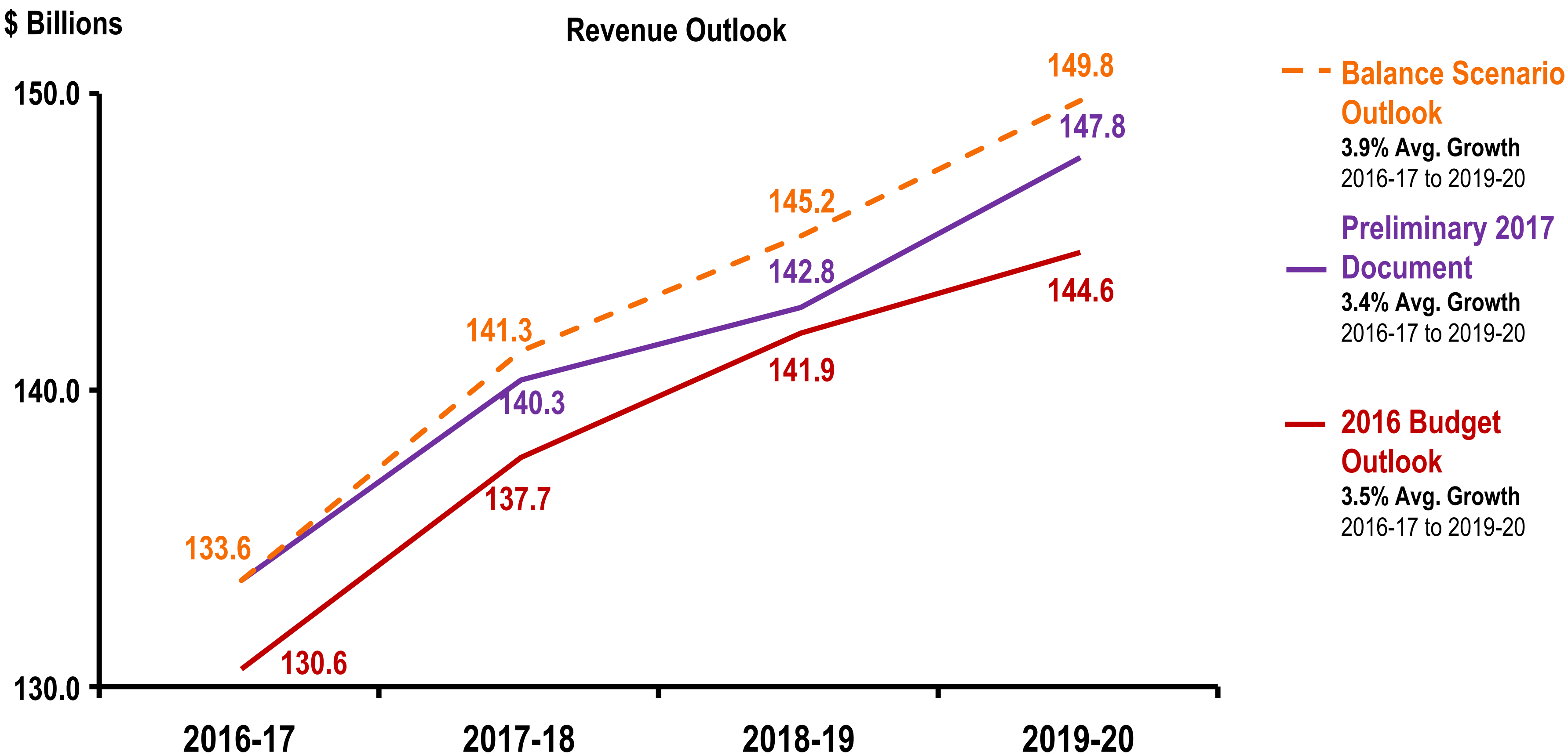
Potential “Restoring Balance” Narrative

Document Narrative - Restoring Balance

- *This Document delivers on the government's 2010 Budget commitment to balance the budget by 2017-18 in a fair and responsible way.*
- *Balance has been achieved by implementing the government's plan to create jobs and grow the economy, while making critical investments to guide Ontario's economy out of the recession.*
- *The plan worked.*
  - *Ontario will not only eliminate its deficit, it has done so without cutting the programs and services that Ontarians depend on.*
  - *Private-sector economists are forecasting that Ontario's economy will be among the strongest in Canada for the next several years.*
- *A strong economy, together with a balanced budget, will help position Ontario for long-term fiscal sustainability. With balanced finances, the government is now in a position to build on previous investments in public services to further support Ontarians and communities.*
- *The benefits of this growth, however, have not been uniformly experienced across the province. The government will continue to build a fair society and ensure that everyone has the opportunity to achieve their full potential and take advantage of the Province's increasing prosperity.*
- *Net debt-to-GDP has been on a declining track since 2014-15, supporting greater sustainability in the Province's management of its debt.*

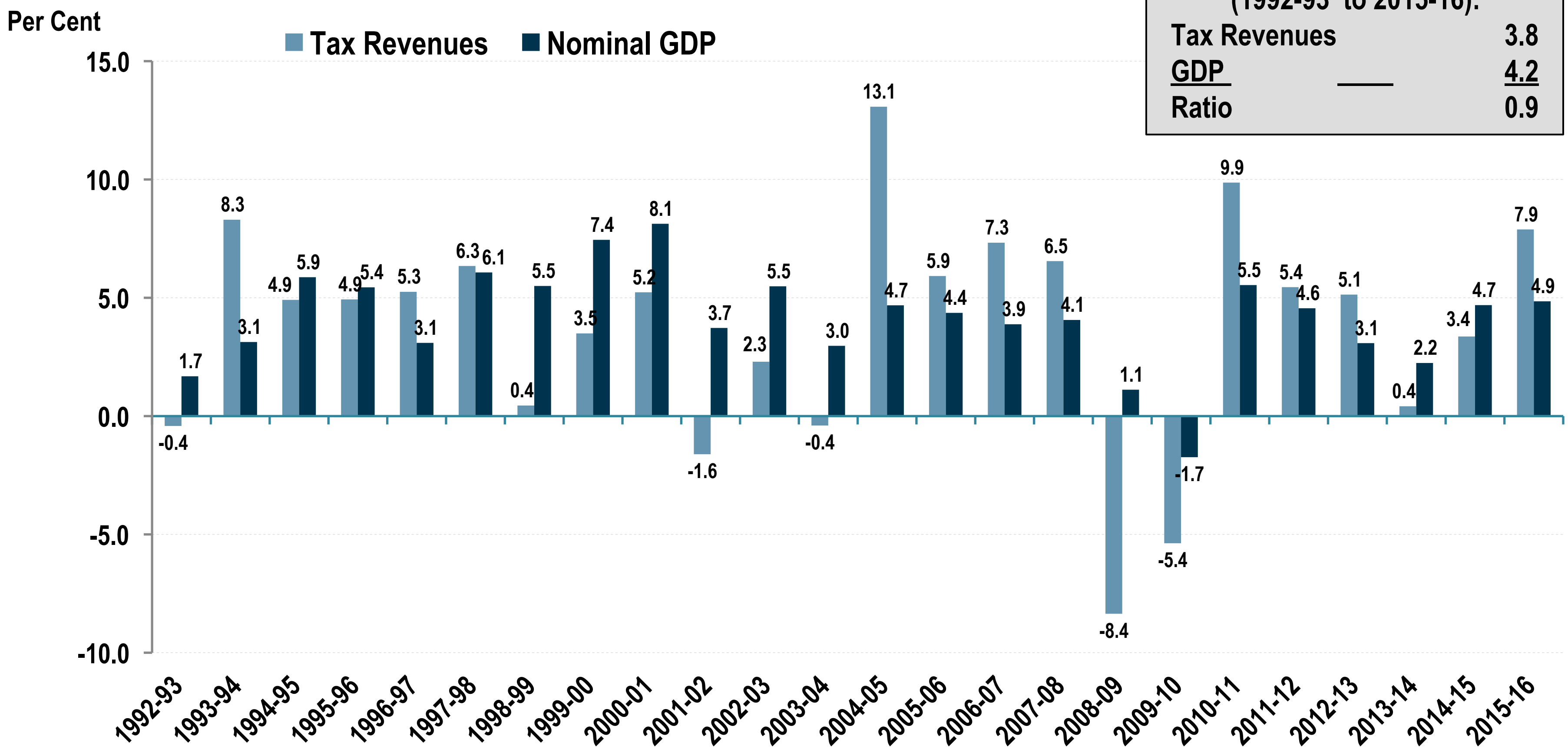
Appendix

Revenue Growth- 2016 Budget to Balanced Scenario



Historical Growth: Taxation* Revenues and Nominal GDP

Average Growth (1992-93 to 2015-16):	
Tax Revenues	3.8
GDP	4.2
Ratio	0.9



*In this analysis, taxation revenues exclude Electricity Payments-in-Lieu of Taxes (PiLs). PILs is kept in the electricity sector to pay stranded debt inherited from Ontario Hydro and it also include s a large amount of one-time increase arising from the Hydro One share sale in 2015-16.

Potential Revenue Tools

A number of revenue tools could be considered as part of the strategy required to close the fiscal gap.

Potential 2017 Document Revenue Measures

- Increases to **tobacco and beer** tax revenue of up to $0.1 billion in 2017-18 growing to $0.3 billion by 2019-20
- Increasing the **insurance premium tax** by 1 percentage point, which could generate up to $0.3 billion in 2017-18, and up to $0.4 billion by 2019-20
- Increase planned **education property tax** adjustment from 1% to 2%annually, which could generate up to $0.1 billion in 2017-18. If this was extended to 2019-20, it could generate up to $0.3 billion
- Use a greater proportion of **Cap and Trade proceeds** against in-plan GHG reduction expenditures (e.g., revisit $0.6 billion for in-plan initiatives in 2018-19 and 2019-20)
- Lobby the federal government to **remove preferential tax treatment for businesses** that benefit from a 50% income tax deduction on expenses related to meals and entertainment. This could generate $0.2 billion in 2017-18, and up to $0.3 billion by 2019-20
- Approach other provinces to create consensus for **pressing the federal government on sharing tax revenue** from certain income tax measures that have a substantial provincial connection (e.g. tax on disposition of certain properties by a non-resident)
- As part of an integrated strategy on revenue integrity, the province could undertake a thorough policy and legislative review of all taxes, including those shared with the federal government, to eliminate loopholes and ensure fairness for all taxpayers. The Province will also move forward to strengthen administration of existing laws, through public education and increased enforcement, enhanced partnerships with the Canada Revenue Agency and strengthening Ontario's ability to address underground economy activity through information sharing legislation.

High-Income Personal Income Tax Increase

Options to increase the top personal income tax rate on high-income taxpayers (e.g. over $200,000 or over $1 million) on either January 1, 2017 or January 1, 2018.

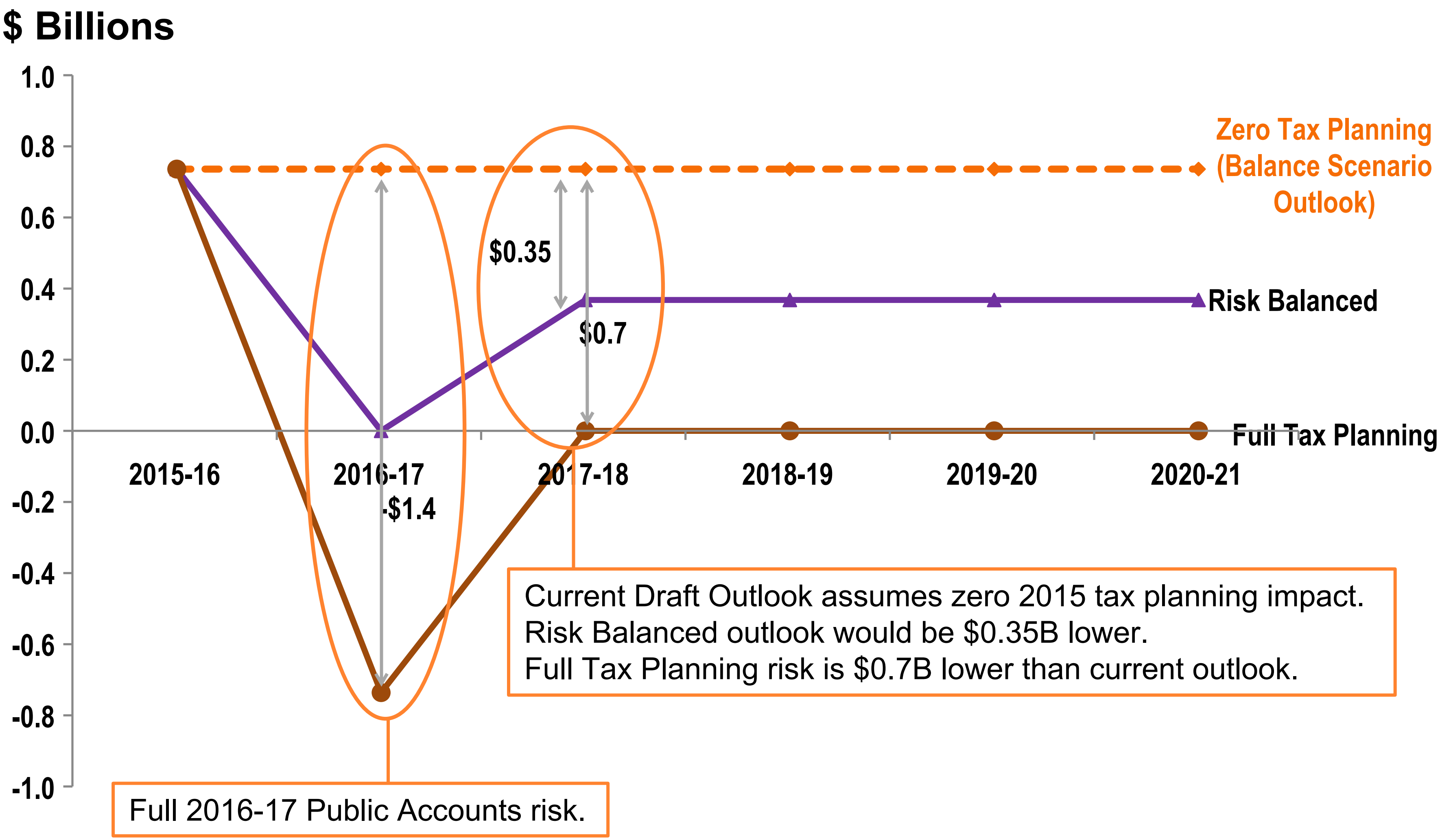
- Increasing the top rate on income over $220,000 by 1 percentage point yields the maximum amount of revenue. Other options have a smaller rate increase or introduce new tax brackets and rates for income over $500,000 or $1 million. (This would not be a new surtax).
- Under most options, Ontario's federal-provincial top marginal rate would increase to 55.09%, the highest in Canada. Ontario is currently second-highest. Depending upon the option, between 10,000 and 130,000 tax filers would pay more tax. The average increase ranges from $4,500 to $20,000 (for the $1 million option).
- Estimates do not account for behavioural responses. Revenue could be significantly lower due to income shifting and other forms of tax planning, particularly in future tax years.
- Anticipated cuts to US personal income taxes are expected to significantly lower the tax rates for high-income individuals, potentially making Ontario less competitive.
- Amendments to the Taxpayer Protection Act (TPA) would be required for a rate increase or bracket change. TPA amendments would be proposed in the Spring Budget bill. Taxation Act amendments would be proposed in a separate bill following passage of the Spring Budget bill.
- Tax changes are made on a calendar-year basis, but withholdings changes can begin mid-year.
  - The first opportunity to make withholdings changes following the Document is July 1. CRA would double the tax increase in withholdings to collect the full-year increase over six months.
  - To mitigate this impact, a tax rate increase could be phased in over two years. For example, Ontario phased in the 2012 two percentage point top rate increase: from 11.16% to 12.16% in 2012, and from 12.16% to 13.16% in 2013.

Preliminary Estimate ($ millions)	2017-18	2018-19	2019-20
Increase PIT on High-Income Taxpayers	0 to 610	0 to 630	0 to 630

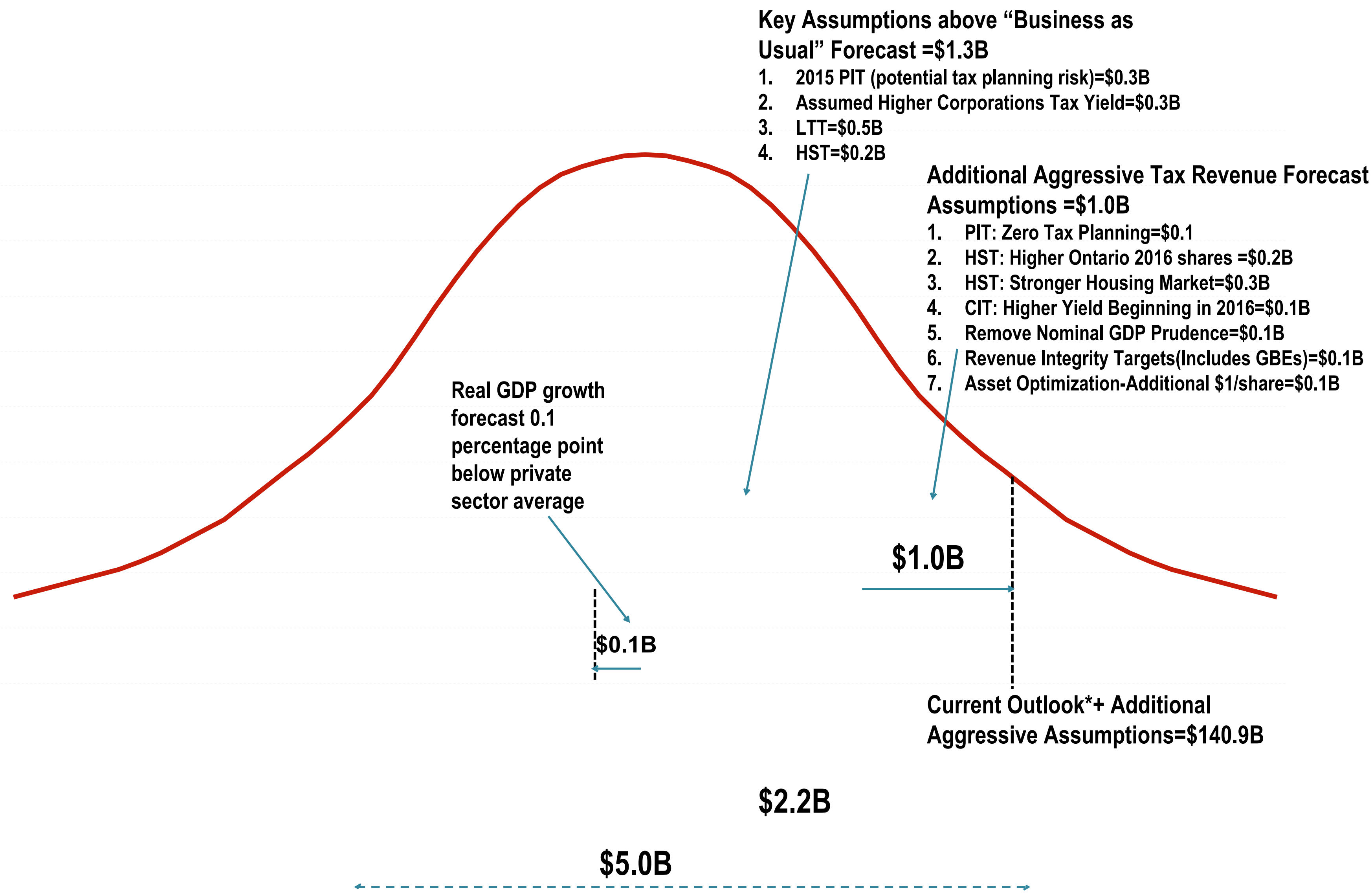
Potential PIT Revenue Tool Options

Alternate PIT Revenue Tool Options

PIT Tax Planning Risk

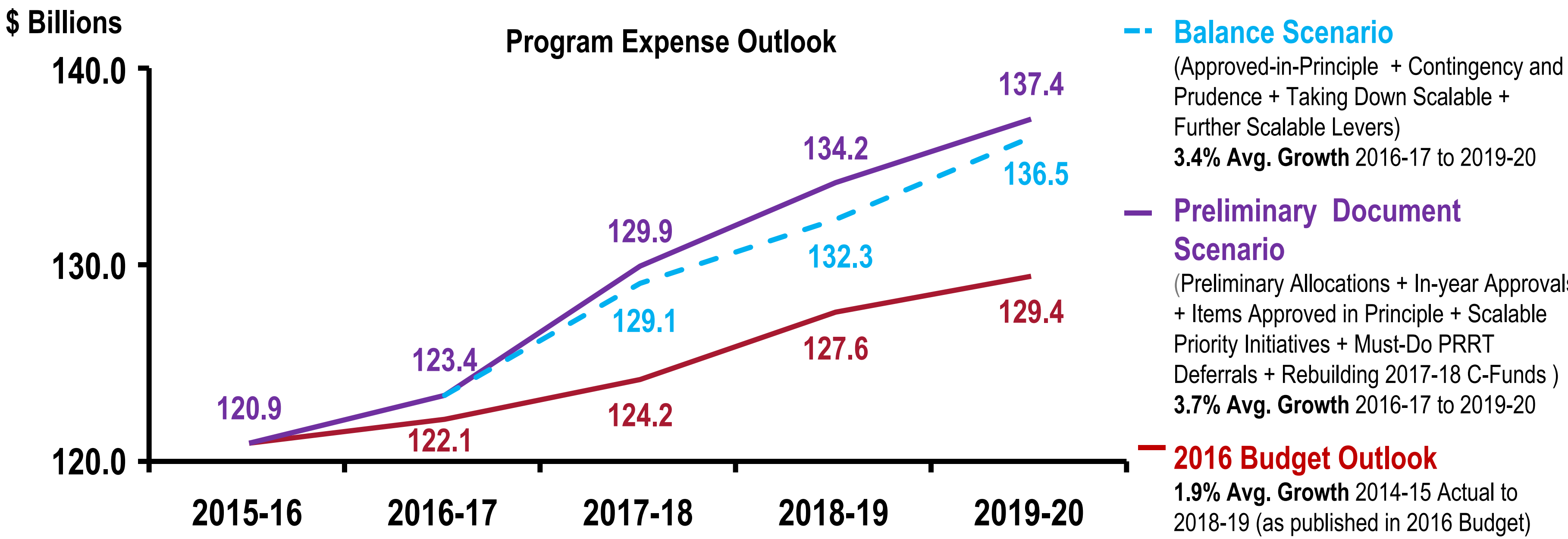


2017-18 Revenue Outlook Risks



*Excludes the revenues from "Targeted Tax Changes"

Expense Growth –2016 Budget to Balance Scenario



$ Billions	2017-18	2018-19	2019-20
2016 Budget Interest on Debt	**12.5**	**13.1**	**13.3**
Changes	*(0.9)*	*(1.0)*	*(1.0)*
Current Interest on Debt	**11.6**	**12.1**	**12.3**
2016 Budget Reserve	**1.1**	**1.2**	**1.2**
Changes	*(0.4)*	*(0.4)*	*(0.2)*
Current Reserve	**0.7**	**0.8**	**1.0**

Details of Expense Tools

	2017-18	2018-19	2019-20	
Approved-in-Principle Levers				
Social Assistance - 2/3 funding	-	(115)	(226)	Reduce amount of forecasted Social Assistance pressures recognized within fiscal plan. Could result in a fiscal pressure in 2018-19 and/or 2019-20.
Lower mental health, ODB rebate and lower unemployment rate	(46)	(47)	(48)	Assume more aggressive projections for Federal mental health funding, Ontario Drug Benefit costs and unemployment. Could result in a fiscal pressure in 2018-19 and/or 2019-20.
Energy - Price Mitigation Programs	(100)	-	-	Assumes some savings in first year of recent electricity price mitigation programs. Could result in fiscal pressure in 2017-18.
Energy - Affordability Fund	(50)	(50)	-	Assume $100M in 2016-17 is sufficient and risk manage 2017-18 and 2018-19 amounts pending confirmation of program eligibility and demand.
Cap Trade / GGRA	(100)	-	-	Assume $100M in 2017-18 for Postsecondary retrofits is directed towards colleges and amortized. Pressure will arise should some of the funding for retrofits be directed to universities.
Infrastructure Ontario Loan Loss Provision	(10)	(10)	(10)	Remove$10M annual loan valuation allowance approved through PRRT. IO may have to reduce spending on other activities to cover potential loan losses.
Major Capacity Expansion-Round 2	(6)	(54)	33	Delay round two call for proposals until 2018-19 (Brampton/Milton)
Unallocated University Capital Expansion	-	(32)	-	Remove capacity expansion capital funding in plan that is not currently tied to any projects.
Flow Honda, Ford early	(29)	-	-	Flow first tranche of Honda, Ford investments in 2016-17.
OCB accrual (one time revenue)	(160)	-	-	Recognize underspending in Ontario Child Benefit as actual amounts claimed have been slightly less than forecasted.
Approved-in-Principle Levers	**(501)**	**(308)**	**(252)**	

Details of Expense Tools (continued)

	2017-18	2018-19	2019-20	
Scalable Levers				
Going Global	-	-	(10)	Postpone decision to approve continuation of Going Global / International Trade missions until a subsequent Budget.
Refugee Settlement	-	-	(5)	Postpone decision to approve continuation of refugee settlement support until a subsequent Budget.
Youth Jobs Strategy	(40)	(40)	(40)	Revert back to previous base of approximately $170M annually, lower than recent years.
BGI (Business Growth Initiative)	(11)	(15)	(7)	Require MEDG to manage costs associated with the Small Business Innovation Challenge and Scale Up Voucher program.
Project Momentum (treat Toyota as risk)	(45)	(45)	(45)	Do not include funding in fiscal plan for a potential agreement with Toyota. Should an agreement be signed it will cause a fiscal pressure.
Childcare Spaces – reduce	-	(210)	(380)	Flat-line operating funding for wage enhancement and fee subsidy at $160M a year. Would require further funding in 2018-19 onward to support publicly announced child care expansion.
Criminal Justice	(30)	(70)	(75)	Limit MAG/MCSCS increase to annualized amounts announced in November. May limit prevent MCSCS from implementing full wrap around care for inmates.
Scalable Levers	**(126)**	**(380)**	**(562)**	

Details of Expense Tools (continued)

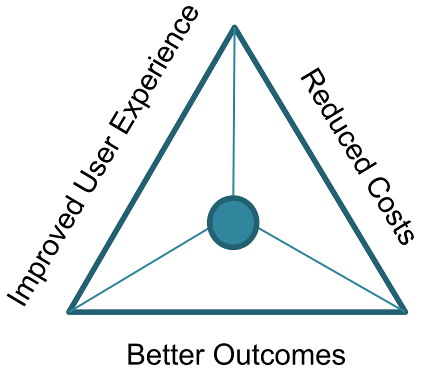
	2017-18	2018-19	2019-20	
Program Review Targets	**-**	**(1,000)**	**-**	Commit to finding $1.0B in savings from existing plans and initiatives in 2018-19. Will become extremely visible in 2018 Budget if savings cannot be found.
Cap and Trade in-plan expense	**-**	**(300)**	**(300)**	Assume additional funding can be directed towards Regional Express Rail or School Retrofits. Would require Minister of the Environment and Climate Change to re-evaluate the GHG reduction potential of RER and/or school retrofits at higher funding amounts.
Contingency & Prudence Levers				
Program Implementation Review	(250)	250	-	Review implementation schedules with the objective of transferring 2017-18 expense to 2018-19.
Reduce contingency fund	-	(135)	187	Set contingency fund balance to approximately $600M annually (apart from Moving Ont. Forward component). Limits ability to fund future pressures including compensation increases.
Contingency & Prudence Levers	**(250)**	**115**	**187**	
Total Expense Levers	**(877)**	**(1,873)**	**(927)**	

	2017-18	2018-19	2019-20	
Scalable Requests (high-end)	**1,325**	**2,380**	**3,157**	Represents the high-end of requests for all scalable initiatives received from ministries.

Program Review: Overview

- A systematic and strategic review process would be undertaken to support transformation and government modernization, and to drive the best value from existing spending.
- The overall objectives would be improving program outcomes, enhancing client/citizen-focus, and identifying opportunities for innovation.
- A key priority for the reviews would be to drive digital solutions, evidence-based approaches, and innovative business practices and service delivery models.
- Particular attention would be paid to opportunities to prototype new approaches, with quick scale-up where efficiencies or enhanced benefits are realized.
- This approach would not provide short-term opportunities for savings. However, savings may result from enhanced system efficiency (and reduced duplication for horizontal files), but this would be longer-term.
- This would be a longer-term approach, that would result in improved efficiency, outcomes, and sustainability of public services.
- Reviews and implementation of transformation would be staged over multiple years, starting in 2017-18. Benefits being realized starting in 2018-19.

Program Review: Areas of Focus



Client focus, outcomes and cost of delivery are the three pillars for the reviews.

While the ultimate desire is to transform programs to achieve better outcomes, improve the user experience and deliver at a lower cost ("the sweet spot"), it may not possible to achieve all three in every review that is undertaken.

A. **Transformation That Has the Potential To Deliver on All Three Pillars** – identifying a number of projects that can deliver on all three pillars and driving hard on their implementation.

B. **Transformational Strategies to Improve Outcomes and User Experience (financial impact could be up or down)**

- **Horizontal Files:** Mapping of aligned initiatives , evidence-based reviews with a focus on outcomes, transformation to maximize the alignment and impact of these investments (e.g. mental health, indigenous supports)
- **Evaluation of Base Programs:** Assessment of program impact and opportunities for continuous improvement (may identify savings through program modifications, but primary focus is outcomes/user experience).

C. **Outcomes and User Experience Satisfactory, Transformation Focused on Program Delivery/Reducing Costs/Increasing Value-for-Money**

- **Horizontal Files:** Mapping of programs in the same space, comparing outcome adjusted unit costs, shifting delivery to lower cost programs/channels
- **Evaluation of Base Programs:** Exploring different, more innovative ways of delivering the program

Opportunity for and importance of pilot testing innovative approaches – small scale experiments to assess new approaches or service models. *These could aim to do any or all of improving outcomes and user experience, and reducing costs.*

2016 Budget to 2017 Document Balance Scenario

2016 Budget Fiscal Plan $ Billions	2017-18	2018-19	2019-20	Change 2017-18	2018-19	2019-20	Balance Scenario 2017-18	2018-19	2019-20
Total Revenue	**137.7**	**141.9**	**n/a**	***3.6***	***3.3***	***n/a***	**141.3**	**145.2**	**149.8**
Total Program Expense	124.2	127.6	n/a	*4.9*	*4.7*	*n/a*	129.1	132.3	136.5
Interest on Debt	12.5	13.1	n/a	*(0.9)*	*(1.0)*	*n/a*	11.6	12.1	12.3
Total Expense	**136.6**	**140.7**	**n/a**	***4.0***	***3.7***	***n/a***	**140.6**	**144.4**	**148.8**
Surplus/(Deficit) before Reserve	1.1	1.2	n/a	*(0.4)*	*(0.4)*	*n/a*	0.7	0.8	1.0
Reserve	1.1	1.2	n/a	*(0.4)*	*(0.4)*	*n/a*	0.7	0.8	1.0
Surplus/(Deficit)	**0.0**	**0.0**	**n/a**	***0.0***	***0.0***	***n/a***	***0.0***	***0.0***	***0.0***