2017 Fall Economic Statement: Fiscal Architecture and Strategy

OFFICE OF ECONOMIC POLICY

Office of the Budget
MINISTRY of FINANCE

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Purpose

To **present the 2017 Fall Economic Statement (FES) fiscal outlook**.

This presentation includes:

I. A recap of the current fiscal outlook relative to the 2017 Budget plan.

II. Updates to revenue and expense that will be included in the 2017 FES.

III. Strategy to accommodate new initiatives for the 2017 FES.

IV. A look ahead at the key fiscal variables leading into the 2018 Document

FES: Key Principles and Decisions

Key Principles

- Since 2003, Fall Economic Statements have included a multi-year update in all but two years. As such, the 2017 FES will present a multi-year update.
- Typically, the FES fiscal outlook is informed by:
  - Post Budget fiscal and economic updates (i.e. Public Accounts, First Quarter Finances, quarterly Economic Accounts and update economic forecasts)
  - Government announcements related to new programs/policy/investments and/or revenue commitments (i.e., public announcements on new investments/initiatives)
  - New federal-provincial agreements (i.e. early learning and childcare agreement)
  - Spending decisions associated with TB/MBC approvals
- The 2017 FES fiscal strategy will reflect the impacts of certain economic and fiscal developments since the 2017 Budget. Given that the FES is a mid-year update and there is uncertainty in the forecast, it is not necessary to take on all known risks at this time.

PART I: Updates since the 2017 Budget

Impact of Revenue Information Received to Date

- Overall the revenue forecast has deteriorated since the *2017 Budget*. However it is still early in the fiscal year and there is uncertainty in the forecast.

$ Billions	Updated Revenue Outlook 2017-18	2018-19	2019-20
Changes since 2017 Budget			
2016-17 Public Accounts			
Personal Income Tax (incl. Ontario Health Premium)	(2.3)	(2.4)	(2.4)
Corporate Income Tax	1.6	1.7	1.8
Government Business Enterprise Net Income and Other	0.2	0.2	0.2
Sub-Total	**(0.5)**	**(0.5)**	**(0.5)**
Revised Economic Growth Outlook			
Stronger GDP Growth	1.0	1.0	1.0
GDP Prudence Achieved	(0.1)	(0.2)	(0.3)
Sub-Total	**0.9**	**0.8**	**0.7**
Housing Market (LTT/NRST)	(0.4)	(0.7)	(0.7)
Post Public Accounts Revenue Information (e.g. PIT)	(0.7)	(0.3)	(0.3)
Total Change since 2017 Budget (Excl. Fiscally Neutral Items)	***(0.6)***	***(0.7)***	***(0.7)***

Updated Since Oct. 4 Cabinet

Numbers may not add to totals due to rounding.
Note revenue outlook also includes fiscally neutral transfers that are not included here

Impact of Expense Information Received to Date

Program expense

- In 2017-18, in-year approvals have been offset from either the contingency funds or revenue.
- Allocations were released to ministries in September, which included additional funding of $0.1 billion in 2018-19 and beyond. Decisions that will be made through the review of ministry PRRT plans are expected to add pressure in each out year.
- In addition, Ministries have identified risks, including:
  - Compensation risks: physician services negotiations; attorney compensation; judiciary compensation; impact of minimum wage
  - Demand driven risks such as land claim settlement funding, and implementation risks such as creating 100,000 child care spaces and capital pressures related to the National Housing Strategy.
- Additional savings – beyond the year-end and program review savings target – (e.g., boulder targets) have been assumed in the fiscal plan and may be challenging to achieve.

Interest on Debt

- Significant IOD savings assumptions were made for 2017-18 and 2018-19 in the 2017 Budget resulting in downside risk to the forecast for this year and next

Other

- Accounting changes were incorporated in the 2016–17 Public Accounts, reflecting the revenues and expenses of BPS organizations on a line-by-line basis. This accounting presentation will also be included in the FES.

Emerging Policy Items

A number of emerging policy initiatives are currently under consideration. Those listed below represent a potential fiscal impact of $0.5 billion in 2018-19, $1.0 billion in 2019-20 and $1.7 billion in 2020-21:

New Initiatives for the 2017 FES

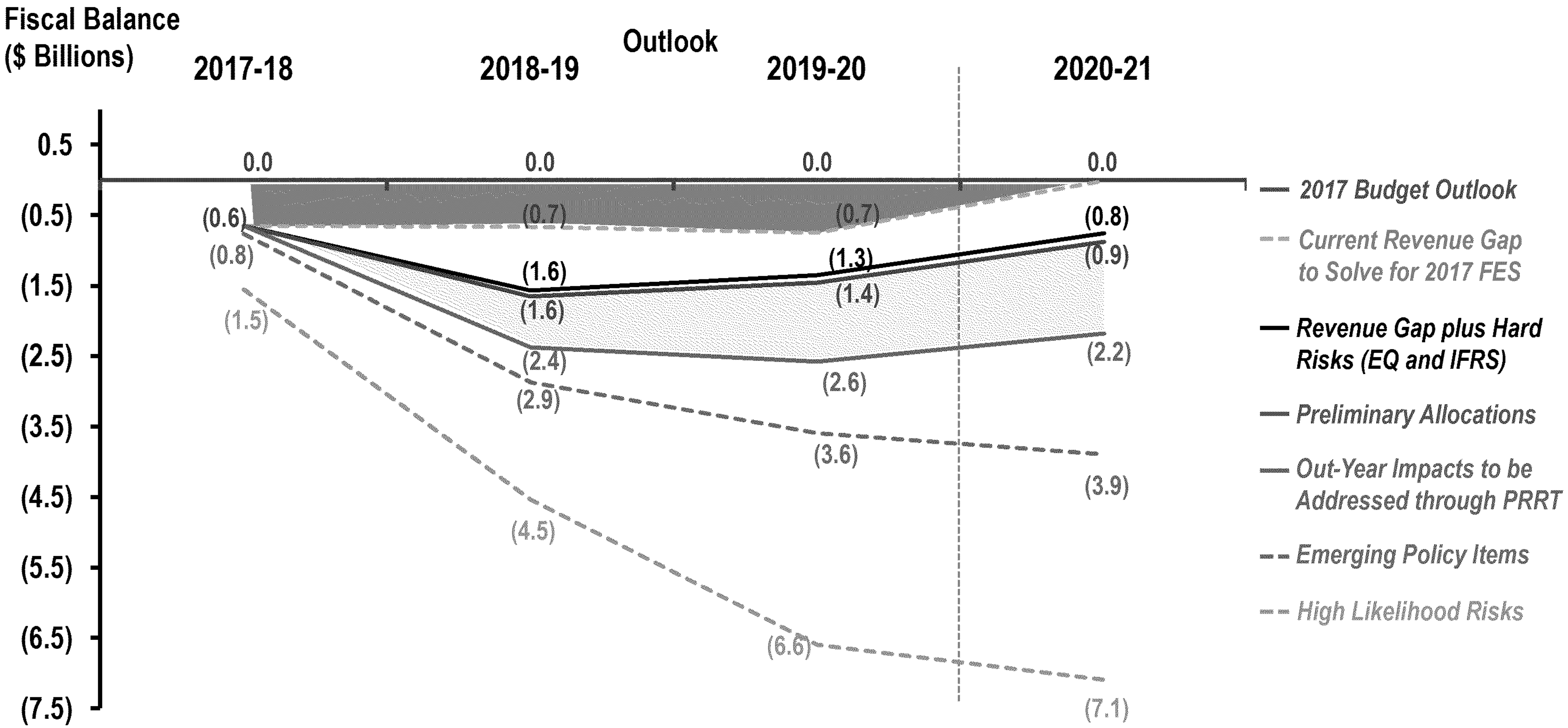
- **Fairness for Seniors:** Multi-ministry strategy to support seniors at all stages as they age by providing the supports they need to stay connected and engaged, healthy and safe, including a commitment for additional beds in long-term care facilities.
- **Small Business:** Measures to reduce costs, with a focus on targeted transitional measures to sectors most adversely affected by minimum wage.

Other items under consideration, potentially for Document

- **Corrections Reform:** Key legislative changes to reform the correctional services system targeted for Fall 2017, largely focused on segregation and community re-integration.
- **Potential Mental Health Investments:** A new funding model for Child and Youth Mental Health services that recognizes each community's population and relative need, allowing agencies to respond effectively to local demands.
- **Long-Term Care:** Initiatives to help improve access to and quality of care for seniors requiring intensive supports, particularly among those with complex needs.
- **High Speed Rail:** Construction of the High Speed Rail (HSR) through the Toronto, Kitchener-Waterloo, London, and Windsor Corridor.

Resulting Range of Potential Fiscal Trajectories

- Updates to the revenue and expense outlooks result in a range of risks that put pressure on the fiscal plan:



PART II: 2017 FES Revenue and Expense

Potential FES Revenue Scenario

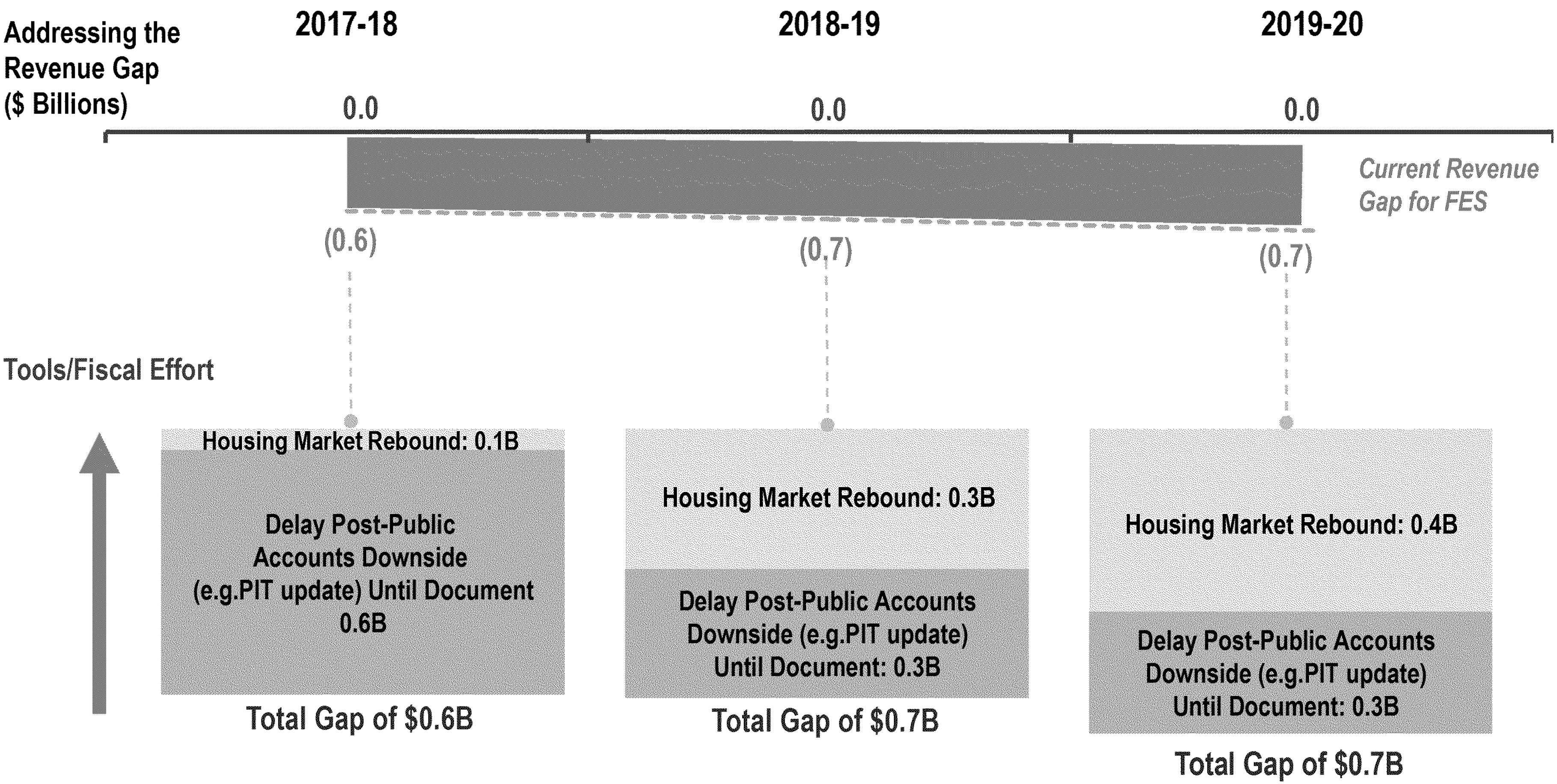
$ Billions	Updated Revenue Outlook			Potential 2017 FES Revenue			Difference		
	2017-18	2018-19	2019-20	2017-18	2018-19	2019-20	2017-18	2018-19	2019-20
Total Restated 2017 Budget Revenue	**150.0**	**153.5**	**158.2**	**150.0**	**153.5**	**158.2**			
Changes since 2017 Budget									
2016-17 Public Accounts									
Personal Income Tax (incl. Ontario Health Premium)	(2.3)	(2.4)	(2.4)	(2.3)	(2.4)	(2.4)	-	-	-
Corporate Income Tax	1.6	1.7	1.8	1.6	1.7	1.8	-	-	-
Government Business Enterprise Net Income and Other	0.2	0.2	0.2	0.2	0.2	0.2	-	-	-
Sub-Total	**(0.5)**	**(0.5)**	**(0.5)**	**(0.5)**	**(0.4)**	**(0.4)**	**-**	**-**	**-**
Revised Economic Growth Outlook									
Stronger GDP Growth	1.0	1.0	1.0	1.0	1.0	1.0	-	-	-
GDP Prudence Achieved	(0.1)	(0.2)	(0.3)	(0.1)	(0.2)	(0.3)	-	-	-
Sub-Total	**0.9**	**0.8**	**0.7**	**0.9**	**0.8**	**0.7**	**-**	**-**	**-**
Housing Market (LTT/NRST)	(0.4)	(0.7)	(0.7)	(0.3)	(0.4)	(0.3)	(0.1)	(0.3)	(0.4)
Post Public Accounts Revenue Information (e.g. PIT)	(0.7)	(0.3)	(0.3)	(0.1)	0.0	0.0	(0.6)	(0.3)	(0.3)
***Total Change since 2017 Budget** (excl. Fiscally Neutral Items)*	***(0.6)***	***(0.7)***	***(0.7)***	***0.0***	***0.0***	***0.0***	***(0.6)***	***(0.7)***	***(0.7)***
Fiscally Neutral Item: • *Early Learning and Childcare Multilateral Framework*	*0.1*	*0.1*	*0.1*	*0.1*	*0.1*	*0.1*	-	-	-
Carbon Allowance Proceeds	0.4	-	-	0.0	-	-	0.4	-	-
Total Change since 2017 Budget*	***(0.1)***	***(0.5)***	***(0.6)***	***0.1***	***0.1***	***0.1***	***(0.2)***	***(0.7)***	***(0.7)***
Total 2017 FES Revenue	**149.9**	**153.0**	**157.6**	**150.2**	**153.7**	**158.4**			

Updated Since Oct. 4 Cabinet

*Excluding fiscally neutral items, the FES revenue outlook is unchanged from the 2017 Budget.
Totals may not add due to rounding.

Addressing the Revenue Gap

- Post 2017 Budget revenue information results in a gap relative the government's balance targets.
- As significant uncertainty remains, it is not necessary to take on all risks at this time, and assumptions have been made to align the 2017 FES outlook with the outlook presented in the 2017 Budget.
  - This will result in additional revenue risks above the high-yield assumptions made in the 2017 Budget.



Post *2017-18 First Quarter Finances* Approvals to be included in FES

- The new revenue assumptions help maintain balance over the outlook.
- On the expense side, all in-year approvals have been accommodated within the fiscal plan – either offset from the contingency fund, from revenue, or managed from within.
- The FES will include details on approvals that were not included in the *2017-18 First Quarter Finances*, resulting in a total 2017-18 contingency fund draw of $0.2 billion to date, including:

In-plan Items to Report in the FES *(Offset from the Contingency Funds/Revenue/Within – see appendix deck)*	
Washington Office	Changing Workplaces
Disaster Relief – Hurricane Irma & Mexico Earthquakes	Emergency Forest Firefighting
Francophone Community Grants Program	Softwood Lumber
Land Claims Capacity Funding	Ontario's Approach to Federal Cannabis Legalization
Fair Housing Plan	Mitaanjigaamiing First Nation Land Entitlement Claim
Rouge Park	Bad Debt Expense
Organization to Advance Science on Climate Change Impacts	Investments in Hospitals and Home Care (managed within)
Items to Report Later	
Indigenous Youth and Community Wellness Secretariat	OHS Prevention TP Priority Funding
GO-TTC Discounted Double Fare Initiative	MCSCS: First Nations Emergency Management

PART III: Accommodating New FES Initiatives

2017 FES Small Business Package

- The 2017 FES will include a $500 million small business package.

Details of Small Business Package ($ Millions)	2017-18	2018-19	2019-20	3-Year Total
Broad Measures				
CIT Rate Relief (1% reduction in Jan 2018)[1]	30	80	145	***255***
Total Broad Measures	**30**	**80**	**145**	***255***
Targeted Measures				
MAESD (Youth Option for Small Employers)	14	55	55	*124*
OMAFRA (Agriculture and Horticulture)	-	30	30	*60*
OMAFRA (Main Street Improvement)	40	-	-	*40*
Access to Capital	3	3	3	*8*
Small Business Access (Oct 16th Announcement)	1	2	1	*4*
Procurement	-	5	5	*10*
Total Targeted Measures	**57**	**94**	**93**	***245***
GAGE/ATTC[2]	*To be included as part of the narrative.*			
Total Fiscal Relief for Small Businesses	**87**	**174**	**238**	***500***
Recent In-Plan Initiatives to Support Small Businesses	**199**	**117**	**110**	***426***

Includes already announced items such as the clean tech equity fund, the scale-up voucher program, the small business innovation challenge and the scale-up ventures fund.

Additional Relief for Small Businesses ($ Millions)	2018	2019	2020	3-Year Total
Financial Relief (no fiscal impact)[3]				
WSIB Impacts (small Business only) - 2017 Reductions	163	170	177	509
WSIB Impacts (small Business only) - 2018 Reductions	102	106	111	319
Total Financial Relief (no fiscal impact)	**265**	**276**	**288**	**828**
Federal Small Business Rate Reduction Impact (Ontario)[1]	*20*	*188*	*284*	*492*

[1] *Estimates may change as a result of further information in the Federal Fall Statement expected next week.*

[2] *Under the proposed GAGE design, eligibility will be expanded to 5 additional trades: hair stylists, cooks, landscape horticulturalists, bakers and appliance service technicians.*

[3] *WSIB and federal small business rate reduction impacts reflect calendar years.*

2017 FES Signature Initiatives

- In addition to small businesses, the 2017 FES will include investments for seniors.

Seniors Strategy

New measures to support seniors include:

- High-dose flu vaccine for all seniors
- Elder Abuse prevention and support initiatives
- Investments in social and recreational activities for seniors living independently
- Access to home care and geriatric specialists
- Strengthen and modernize the office of the public guardian and trustee
- Commitment for additional beds in long-term care facilities

Fiscal Impact of Seniors Strategy ($ Millions)	2017-18	2018-19	2019-20	3-Year Total
Seniors Strategy	13	68	76	156

Support For Small Businesses

New measures will deliver financial support to Ontario small businesses including:

- Small business CIT rate cut from 4.5% to 3.5% beginning in January 2018 (22% rate reduction)
- Support enhancements to main streets/ traditional town centres
- Promote easier and more efficient access to government services
- Target 33% of government procurement spending to SMEs and eliminate bidding fees

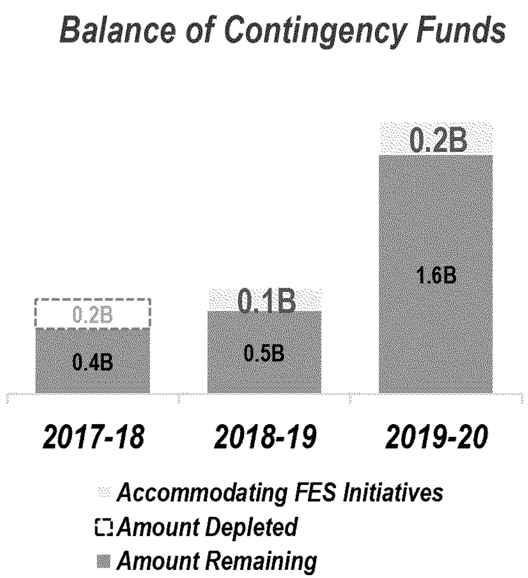
Fiscal Impact of Support for Small Businesses ($ Millions)	2017-18	2018-19	2019-20	3-Year Total
Support for Small Business	87	174	238	500

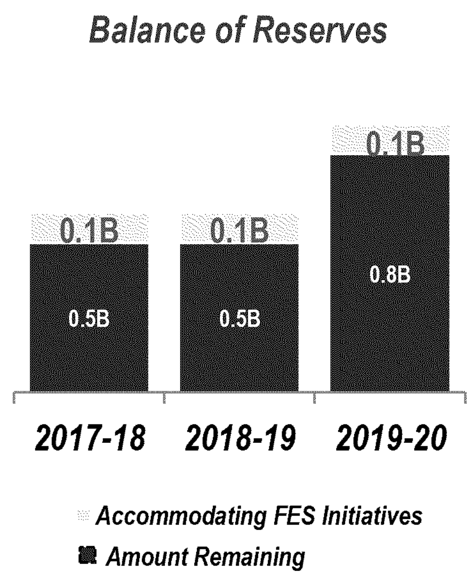
Total Amount to be Accommodated in 2017 FES ($ Millions)	2017-18	2018-19	2019-20	3-Year Total
Total Initiatives	**100**	**242**	**314**	**656**

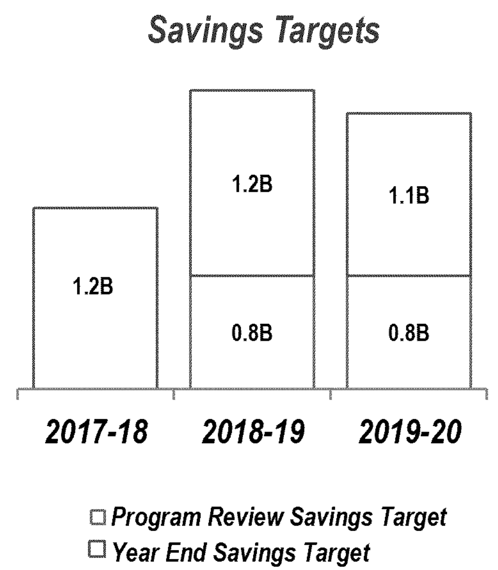
Accommodating FES Envelope for New Initiatives

- To accommodate both the Seniors Strategy and Support for Small Businesses in the fiscal plan, the government may need to draw on a combination of the reserve and contingency funds in each year.

Total Amount to be Accommodated in FES ($ Millions)	2017-18	2018-19	2019-20	*3-Year Total*
Seniors Strategy	13	68	76	156
Small Business Strategy	87	174	238	500
Total FES Initiatives	**100**	**242**	**314**	**656**







2017 Budget to Potential FES Outlook

- Based on the current revenue and expense information, as well as new tools to achieve the government's fiscal targets, the FES will publish a balanced plan over the outlook.

Restated 2017 Budget Fiscal Plan $ Billions	Actual 16-17	17-18	18-19	19-20	Change 17-18	18-19	19-20	FES Outlook 17-18	18-19	19-20	Avg. Ann. Growth 2016-17 to 2019-20
Revenue	**140.7**	**150.0**	**153.5**	**158.2**	*0.1*	*0.1*	*0.0*	**150.2**	**153.6**	**158.2**	*3.8%*
Expense											
Total Program Expense	130.0	137.2	140.3	144.1	*0.2*	*0.2*	*0.1*	137.4	140.4	144.2	*3.0%*
Interest on Debt	11.7	12.2	12.7	13.3	-	-	-	12.2	12.7	13.3	*3.4%*
Total Expense	**141.7**	**149.4**	**152.9**	**157.3**	***0.2***	***0.2***	***0.1***	**149.7**	**153.1**	**157.4**	***3.0%***
Reserve	-	0.6	0.6	0.9	*(0.1)*	*(0.1)*	*(0.1)*	0.5	0.5	0.8	
Surplus/(Deficit)	**(1.0)**	**0.0**	**0.0**	**0.0**	-	-	-	**0.0**	**0.0**	**0.0**	
Net Debt-to-GDP (%)	***37.8***	***37.5***	***37.3***	***37.2***				***37.1***	***36.9***	***36.9***	

Note: Assumes new FES investments have expense impacts only (i.e do not result in a revenue impact)

Revenue:

- Increased in all years due to fiscally neutral items, including the Early Learning and Childcare Multilateral Framework, partially offset by the CIT cut for small business

Program Expense:

Includes:

- In-year approvals with contingency fund offsets
- New initiatives offset from the contingency funds and the reserve.

Increased in all years due to fiscally neutral items, as well as items partially offset from the reserve.

Interest on Debt:

- Unchanged from the 2017 Budget

PART IV: Looking Ahead to the 2018 Document

The Path to the 2018 Document

- The fiscal impact of FES initiatives is mitigated by drawing down the reserve and the contingency funds over the outlook (as shown below by the light pink stripes).
- However, there are a number of pressures that need to be addressed in order to publish balanced budget targets for the 2018 Document.
- Targeting balance in the 2018 Document while continuing to make new investments will require the consideration of all options, including revisiting all available tools to address known risks in the plan and potentially moving off of the government's balanced budget targets.