2017 Document: Fiscal Plan Strategy & Priority Investments – Executive Summary

MMP, February 2016

Preliminary Draft (All numbers to be confirmed) – February 8, 2017 8:30 PM

Purpose

- To outline the **frame, priorities, and approach** to the 2017 Document.
- Confirm the 2017 Document **fiscal anchors** and review the current fiscal challenge
- Review proposed **themes** for the 2017 Document and **priority areas for new investments** in light those themes.
- Outline the **potential tools** that could support key investments and achievement of the government's fiscal objectives
- Discuss **next steps and key decisions** to be made as part of the planning process.

2017 Document – Framing and Anchoring

Framing the Balance of Choices for the 2017 Document

Build on Government's Plan, Demonstrate Progress, and Provide a Vision for Tomorrow

- Show progress on the government's plan to **invest in the economy and build Ontario up for everyone**.
- Demonstrate **responsible fiscal management**.
- Continue to **transform** and protect public services for longer term sustainability.

Confirm Recent Investments, Launch New Supporting Priority Investments

- Point to **2016 Budget investments**, as well as important **additional commitments** made in the 2016-17 year that demonstrate progress.
- Launch **select new priority investments** that create jobs and grow the economy of tomorrow.

Maintain Fiscal Credibility

- Continue to beat **deficit targets** and return the Province to **balanced budgets**.
- Moving forward, ensuring a **fiscally sustainable** and credible plan.

Reconciling and Balancing the Approach

- **Reconciling the government's fiscal anchors**, such as balancing the budget in 2017-18 and ongoing, **with the commitment to invest in priorities,** such as **additional electricity relief,** will require **trade-offs**.
- This means the scope, size and roll-out of new priority investments **may require the consideration of all viable revenue tools and other measures** in the lead-up to the 2017 Document.
- Need to maintain a longer-term view to the **2018 Document, Pre-Election Report** and beyond.

2017 Document: Determining Fiscal Anchors

- The 2014, 2015 and 2016 Budgets consistently laid out plans that balanced the government's plan to invest in the Ontario economy and public services, while also balancing the budget.

- As a continuation and culmination of these plans, the 2017 Document will need to be able to demonstrate progress on the government's plan to invest in today's jobs and tomorrow's economy, ensure Ontarians can count on key public services, and make Ontario an affordable place to live, while delivering on the **commitment to balance the budget in 2017-18**.

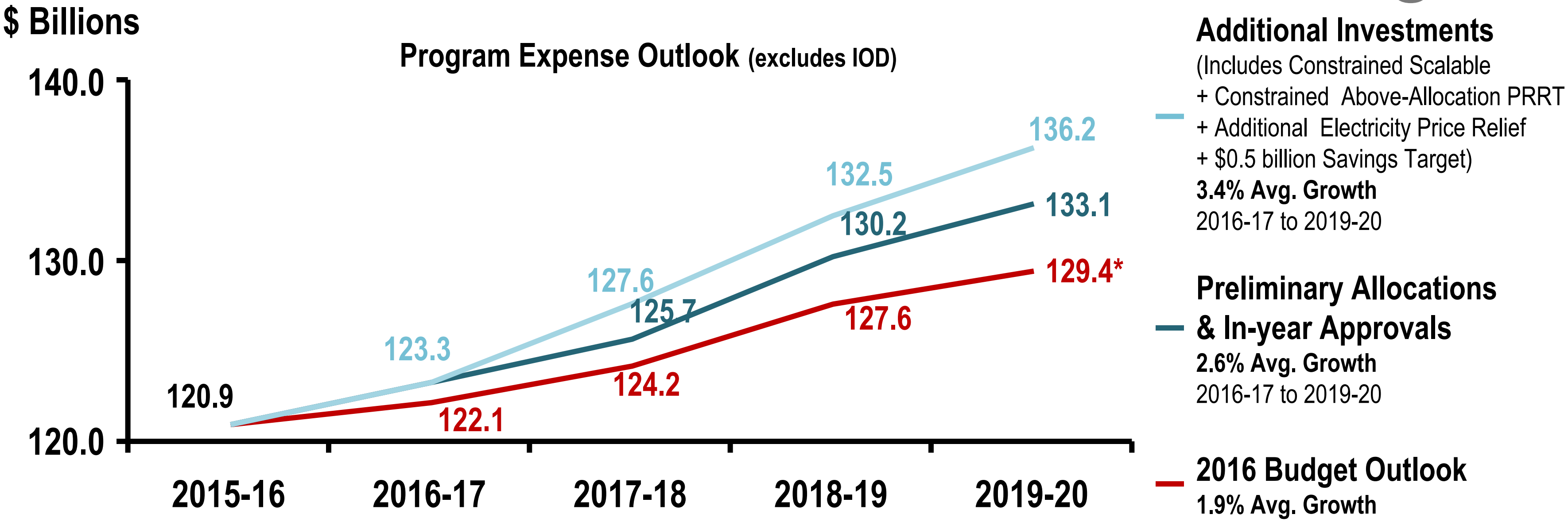
- As part of the planning for the 2017 Document, the government must confirm its **fiscal objectives and anchors – for the upcoming year (2017-18), as well as the two subsequent years –** in order to provide the right overall financial framing and envelope that will support new investments.

	2016 Budget Targets		Decision Required for 2017 Document	
Potential Fiscal Anchors	**2017-18**	**2018-19**	**2019-20**	Net debt-to-GDP target: Flat-lined or continued progress towards 27%
	Balance	Balance	Balance	

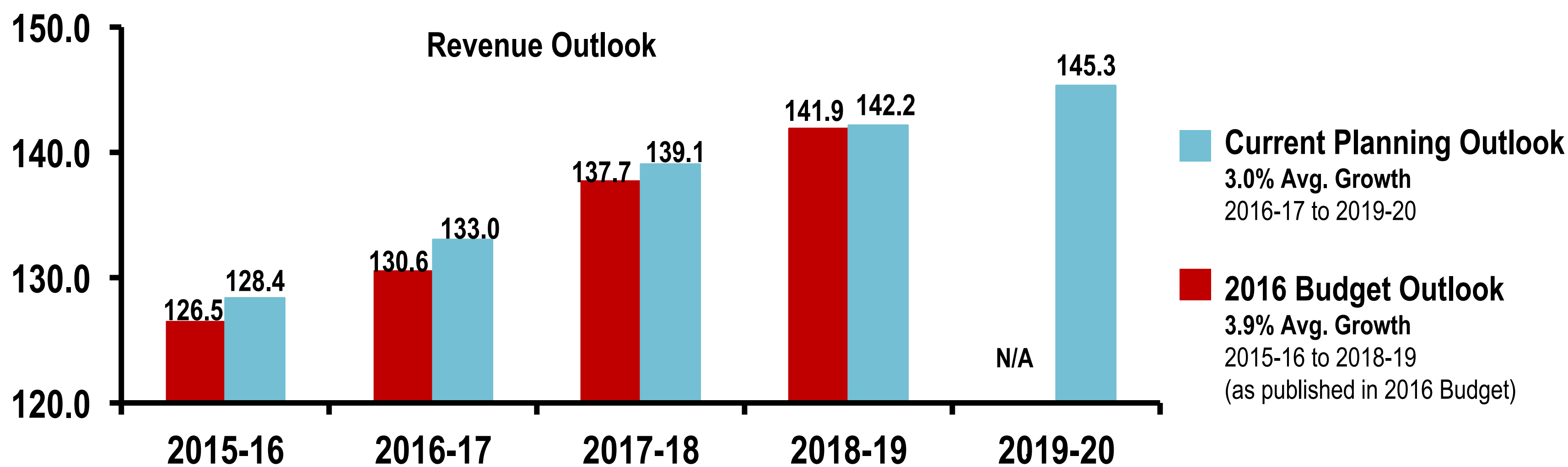
- With **fiscal anchors and overarching objectives** in place, the government will be in a position to determine the fiscal envelope available for new investments.
  - The fiscal envelope can also be **augmented through additional tools and levers**, as well as trade-offs between investments (including delaying some investments for the 2018 Document).
  - Revenue and expense information **will continue to come in** as part of the lead-up to the 2017 Document that could impact the fiscal envelope (e.g. Federal Budget).

Evolution of the Fiscal Plan and Current Challenge

Evolution of Fiscal Plan Since 2016 Budget



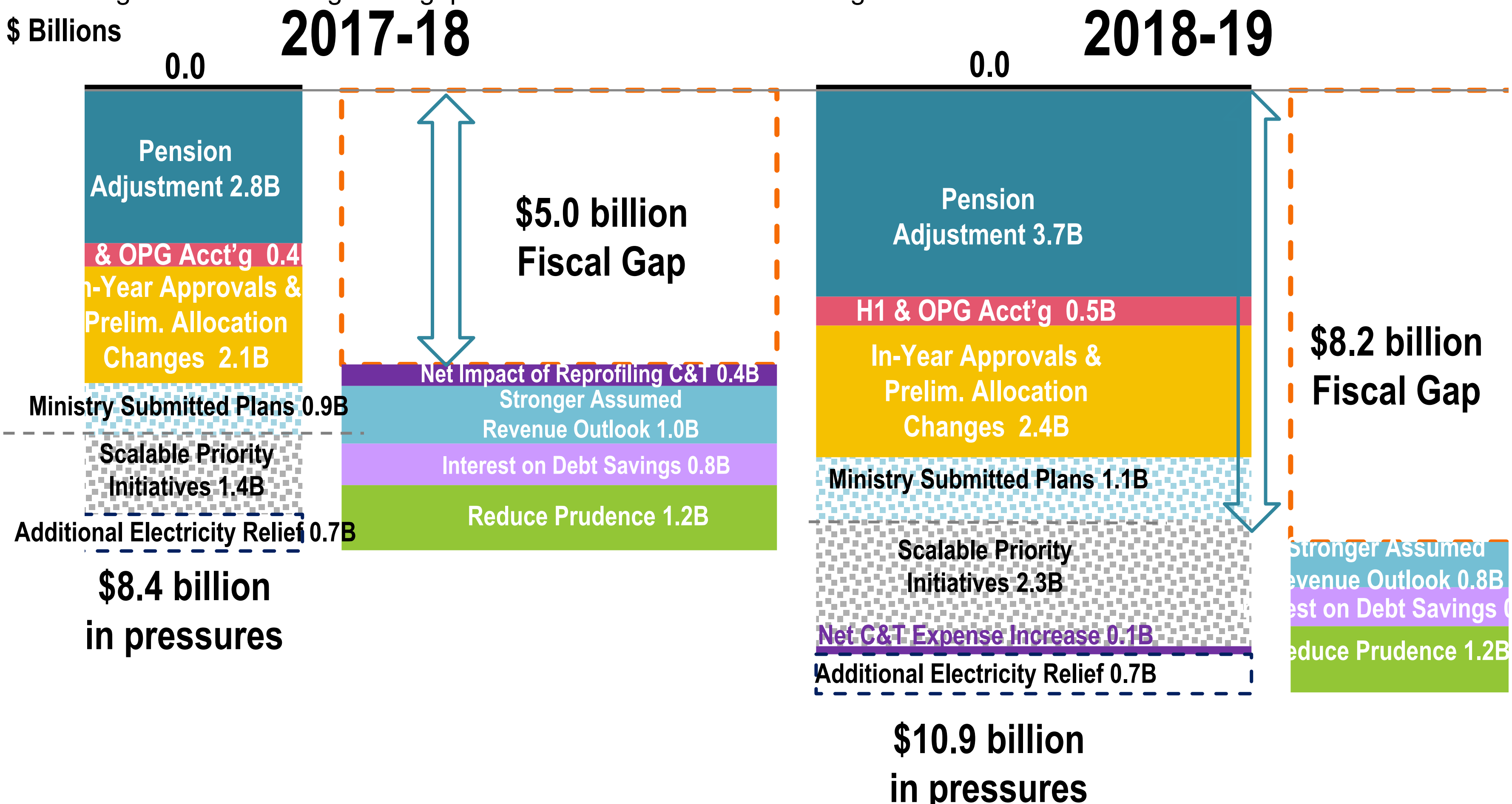
Current IOD	11.0	11.3	11.7	12.4	12.6
Reserve	--	0.4	0.7	0.8	1.0



The Fiscal Challenge

While the 2016 Budget outlined a plan to balance the budget in 2017-18 and remain balanced in 2018-19, **changes since the Budget have created a gap compared to the government's fiscal targets.**

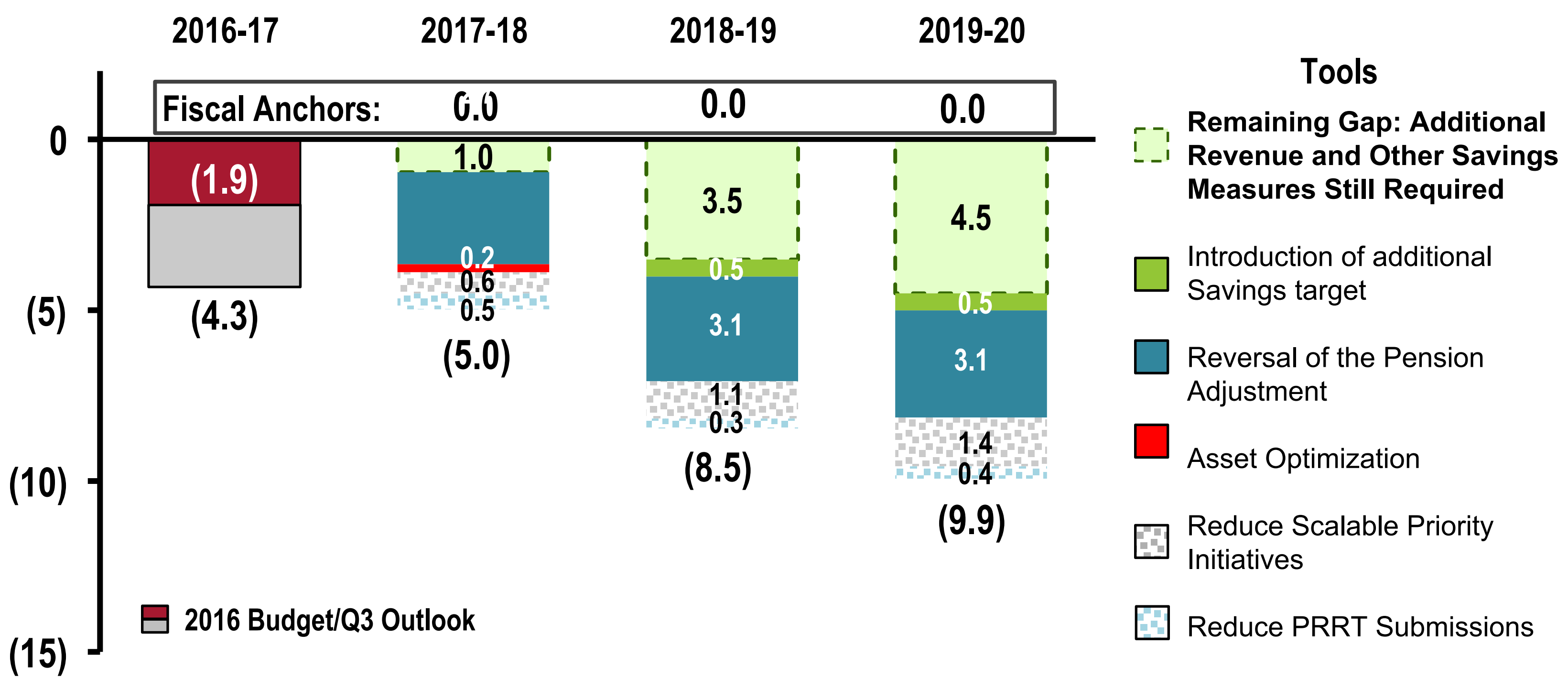
- A stronger outlook for revenue and lower interest on debt expense are currently tracking against the Budget forecast – **however, spending pressures, new strategic investments, and the pension adjustment also materialized** – creating a fiscal gap.
- In order to accommodate fiscal pressures in 2017-18 and 2018-19, tools were taken on in the 2016 FES and the 2016 Budget. The remaining fiscal gap will need to be addressed through additional tools.



Assessing the Fiscal Challenge – Closing the Gap

Some measures have already been identified to help close the gap – including reversal of the pension adjustment, scaling back PRRT requests and scalable initiatives, and higher savings targets.

However, **continuing to assume fiscal anchors of balanced budgets** over the forecast horizon **means a limited envelope for new investments, and the need to identify additional tools and levers.**



Note: Due to the asset optimization tool assumed in 2017-18, the 2018-19 gap increases from $8.2 billion to $8.5 billion

Key Expense Decisions for Priority Investments

DOCUMENT 2017

The government continues to implement its plan to create jobs and grow the economy in an inclusive way that benefits everyone. The government will balance the budget by investing in its people and communities, creating opportunities and making life more affordable today.

RESTORING BALANCE: ONTARIO'S ECONOMIC AND FISCAL STRENGTH

Ontario's plan to create jobs and grow the economy is working. The plan has strengthened the Ontario's economy and restored the Province's finances to balance. The government has achieved this by making investments in its people, communities and public services that Ontarians rely on. The government has beaten its deficit targets every year over the past [8] years.

MAKING ONTARIO A MORE AFFORDABLE PLACE TO LIVE

Ontario is taking a balanced approach to make life more affordable for families and businesses now and at the same time build for the kind of future families need. The government is investing in priorities that help people in their everyday lives. This includes helping with people's daily costs and monthly bills, improving convenience and choice, and reassuring people that their child or aging parents will receive the best possible care.

INCLUSIVE GROWTH: INVESTING IN TODAY'S JOBS & TOMORROW'S ECONOMY

TODAY'S JOBS

As Ontario's economy grows, everyone should be able to benefit from and contribute to inclusive growth. The province is harnessing this growth in the economy to create more opportunity and security in the life of every family.

TOMORROW'S ECONOMY

Ontario is preparing its workforce for the economy of tomorrow by building a highly skilled workforce for technology and knowledge-based jobs. The government is also creating a more innovation- driven economy, helping firms scale up into global leaders and modernizing regulations to lower the cost of doing business.

BUILDING STRONGER COMMUNITIES

HEALTH

Ontario continues to make improvements to the health system to deliver high-quality health care that puts patients and their families first. Ontario's plan is providing faster access to the right care, better home and community care, the information patients need to stay healthy and a health care system that's sustainable for generations to come.

EDUCATION

Ontario's strength has always been its people. The government is making investments that help create barrier-free access to education for everyone. These investments will prepare students to succeed now and for the economy of the future.

TRANSPORTATION

The government continues to invest in reliable transportation infrastructure to help move people and goods to support a competitive economy. The Province is building stronger public transit systems that will offer more travel options for commuters and families.

SOCIAL SERVICES

All Ontarians should have the opportunity to realize their full potential and participate equally in society. The government is working to create public services that all Ontarians can count on, everyday.

JUSTICE

Ontario's criminal justice system must work to protect the interests of all people — victims, the public and the accused — while keeping communities safe. The government continues to work on improving the criminal justice system to make it faster and fairer.

PARTNERSHIPS

Ontario believes that a collaborative approach to federalism is the best way to achieve lasting solutions. Ontario continues to work with the federal government and other partners such as municipalities to build Ontario up and ensure a bright future for its residents.

Potential Priority Investments

New scalable requests submitted in the 17-18 PRRT process can be aligned with proposed 2017 Document themes and build on existing programs and funding commitments already made in and since the 2016 Budget.

- Choices remain with respect to prioritization of initiatives and timing of implementation which can be considered through the 2017 Document process

Summary of Potential investments include	Future Decisions
• 100,000 child care spaces • Health at 3% plus some small additional investments • Highly Skilled Workforce • BGI enhancements supporting transformative technologies • Education labour agreements and higher enrolment	• Additional capital investments • Funding for Ministry pressures

FISCAL SUMMARY

- **Approved Investments**: Approved initiatives, implementation beginning or just underway
- **Potential Priority Investments**: New funding recommendations reflecting assessments completed by CO/MOF/TBS to align upcoming policy priorities and mandate letter commitments
- **Not Recommended for Approval**: High Fiscal Impact Option (as proposed by ministries) in excess of the recommended Potential Priority Investments

$ Millions	2017-18	2018-19	2019-20	2020-21	Total
Approved Investments*	5,357	7,457	8,542	9,655	31,010
Potential Priority Investments	917	1,472	1,761	1,863	6,013
Total Investment	6,274	8,929	10,302	11,517	37,023
High Fiscal Impact Option Total	1,371	2,341	3,010	3,357	10,079
Not Recommended for Approval	454	869	1,249	1,495	4,066

*These investments include tentative agreements with educator sector workers.

SUMMARY OF INVESTMENTS

THEME/PRIORITY $M	2017-18	2018-19	2019-20	2020-21	Total
Making Ontario a More Affordable Place to Live					
Approved Initiatives	1,152	1,198	1,175	1,149	4,674
Potential Priority Investments • *Childcare spaces* • *Enhancements to OSAP* • *Senior Investments*	210	516	693	774	2,193
Investing in Today's Jobs					
Approved Initiatives	780	644	577	577	2,578
Potential Priority Investments • *Highly-Skilled Workforce* • *Youth Jobs Strategy* • *Ontario Black Youth Action Plan*	220	252	262	234	967
Investing in Tomorrow's Economy					
Approved Initiatives	858	1,379	1,423	1,397	5,058
Potential Priority Investments • *Business Growth Initiatives (BGI)* • *Going Global/ Export Trades Strategy* • *Project Momentum* • *Ontario Place Interim Activation*	143	143	134	104	524
Building Stronger Communities: Health					
Approved Initiatives [Health at 3% growth]	846	1,540	2,175	2,857	7,418
Potential Priority Investments • *Increase Compensation for Allied Health Professionals* • *Supporting Seniors and Dementia Strategy* • *Community Mental Health and Addiction [if offset federally]*	52	107	166	228	553

SUMMARY OF INVESTMENTS (CONT'D)

THEME/PRIORITY $M	2017-18	2018-19	2019-20	2020-21	Total
Building Stronger Communities: Education					
Approved Initiatives • Includes tentative labour agreements (e.g. class sizes, contract rollovers) and revised school board forecast	506	1,037	1,471	1,643	4,658
Building Stronger Communities: Transportation					
Approved Initiatives	57	310	402	581	1,350
Potential Priority Investments • *GO Transit*	24	47	75	80	227
Building Stronger Communities: Social Services					
Approved Initiatives	968	1,140	1,115	1,250	4,473
Potential Priority Investments • *Developmental Services* • *Income Security Reform* • *Basic Income Pilot* • *Other investments*	238	338	356	369	1,300
Building Stronger Communities: Justice					
Approved Initiatives	189	207	203	199	798
Potential Priority Investments • *Corrections Reform*	30	70	75	75	250
Total Approved Initiatives	**5,357**	**7,457**	**8,542**	**9,655**	**31,010**
Total Potential Priority Investments	**917**	**1,472**	**1,761**	**1,863**	**6,013**

Potential Fiscal Tools

Potential Tools to Achieve Fiscal Targets

There are a number of revenue and expense measures that could be considered to achieve fiscal targets.

Additional Revenue Measures

- Determine the scope for revenue tools, including:
  - Targeted Tax Changes (e.g: Tobacco, Alcohol, Insurance Premium, Education Property)
  - Non-tax revenue
  - Federal tax measures

Federal Revenue Strategy

- Engagement strategy with the federal government to maximize new federal funding, including:
  - Equalization Protection
  - Funding for climate change initiatives
  - Infrastructure*
  - Health funding*

Additional Expense Measures

- Determine the scope for expense measures, including:
  - Undertaking additional transformative initiatives
  - Revisiting in year approvals
  - Timing/scaling mandate letter commitments*
  - Additional savings targets*
  - Program Review
- Further Interest on Debt Savings*

Prudence

- What is the appropriate level of prudence to build into the fiscal plan?
  - Further reductions to the reserve* or Contingency Fund*, or
  - Pushing the revenue forecast or interest on debt forecast beyond current expectations, increases vulnerability to future downward forecast revisions

* Indicates tool that is already built into planning assumptions -- limiting potential additional fiscal effort from these tools.

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 each year between 2017-18 and 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 will 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.

Summary of Potential Revenue Tools

$ Millions	2017-18	2018-19	2019-20
Increases to Tobacco and Alcohol Taxes*			
Tobacco Tax of 1 cent per cigarette	40	39	38
Alcohol Tax of 6 cents per litre	14	41	59
Total Tobacco/Alcohol Tax	**54**	**80**	**97**
Increases to the Insurance Premium Tax	270	380	395
Increase Planned Education Property Tax	85	180	310
Total Potential Tax Tools	**409**	**640**	**802**
Other Potential Tax Tools			
Lobby for Federal Reform of Corporate Meals and Entertainment Tax Allowances	**170**	**250**	**340**

*Tobacco tax increases are equivalent to an additional cost of $2.00 per carton of 200 cigarettes. 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 $1.00 including the 25 cent per year increase over two years announced in the *2015 Budget*.

Expense Tools: Program Reviews with Savings Targets

- Initiate a **systematic program review** process with the goal of identifying savings that would materialize beginning in 2018-19.
- **Buy-in from the Cabinet and ministries** is an essential condition for the program review process to meet is objectives.
- If approved, the program review process would be **launched in Spring 2017** and include:
  - Developing **savings targets for ministries** taking into account the overall allocation of ministries, current mandate commitments and non-discretionary pressures.
  - Ministries would be asked to propose plans to **implement savings targets** that avoid across-the-board reductions. Instead, the savings plans to be **informed by evidence** of effectiveness of programs and focus on PRRT principles (relevance, effectiveness, efficiency and sustainability of programs)
  - Where services are offered by multiple ministries, **costing reviews involving multiple ministries** can be initiated to identify the most effective mode of delivery. External support would be provided, as necessary, to maximize impact and outcomes.
  - **PRRT Sub-Committee** can be used to provide oversight and direction to ministries in the development phase.
  - Ministries would be asked to report back in the **2018-19 PRRT** for approval of their plans.

Illustrative Impact of Tools on Program Expense

$ Billions	Actual 2015-16	2016-17	2017-18	2018-19	2019-20	Avg. Ann. Growth 2016-17 to 2019-20	Avg. Ann. Growth 2015-16 to 2019-20
2016 Budget (as published)	**120.9**	**122.1**	**124.2**	**127.6**	**N/A**	**1.9%**	**1.9%***
Year-over-year growth		*1.0%*	*1.7%*	*2.8%*			
Subtotal with In-Year Approvals and Prelim. Allocations	**120.9**	**123.3**	**125.7**	**130.2**	**133.1**	**2.6%**	**2.4%**
Year-over-year growth		*1.9%*	*1.9%*	*3.6%*	*2.2%*		
Subtotal with Full PRRT & Scalable Priority Submissions	**120.9**	**123.3**	**128.0**	**133.6**	**137.8**	**3.8%**	**3.3%**
Year-over-year growth		*1.9%*	*3.9%*	*4.4%*	*3.1%*		
Subtotal with Revised Requests + Electricity + $0.5 billion Savings Target	**120.9**	**123.3**	**127.6**	**132.5**	**136.2**	**3.4%**	**3.0%**
Year-over-year growth		*1.9%*	*3.5%*	*3.8%*	*2.8%*		
Constrained Program Expense Outlook to Balance (assumes additional revenue tool of ~$1 billion)	**120.9**	**123.3**	**127.6**	**130.0**	**132.7**	**2.5%**	**2.4%**
Year-over-year growth		*1.9%*	*3.5%*	*1.8%*	*2.1%*		
Constrained Program Expense could be composed of:							
Health Sector Expense Growing at 3%	51.1	52.1	53.7	55.3	57.0	**3.0%**	**2.8%**
Year-over-year growth		*2.1%*	*3.0%*	*3.0%*	*3.0%*		
All Other Expense	69.9	71.1	73.9	74.6	75.8	**2.1%**	**2.0%**
Year-over-year growth		*1.8%*	*3.9%*	*1.0%*	*1.5%*		

*Reflects published average annual growth between 2014-15 actual and 2018-19 budget plan.

Key Decisions Required

A number of framing and anchoring decisions are required in order to firm up the overall approach to the 2017 Document:

- Confirm approach for **additional electricity relief**
- What **fiscal anchors** does the government want to set?
- Feedback on **overall storyboard** for the 2017 Document
- **Scale and scope priority areas for investment** in 2017 Document
- What balance of **revenue and expense measures** to take on in order to meet fiscal anchors and make priority investments?
  - Are there any revenue measures that are **not in scope**?
  - Buy in for/develop details of a **program review exercise** across all ministries to constrain program spending outlook