2017 Document Fiscal Outlook

Budget Prep Committee

Draft April 18, 2017 7:00PM

Confidential Advice to Cabinet

Purpose

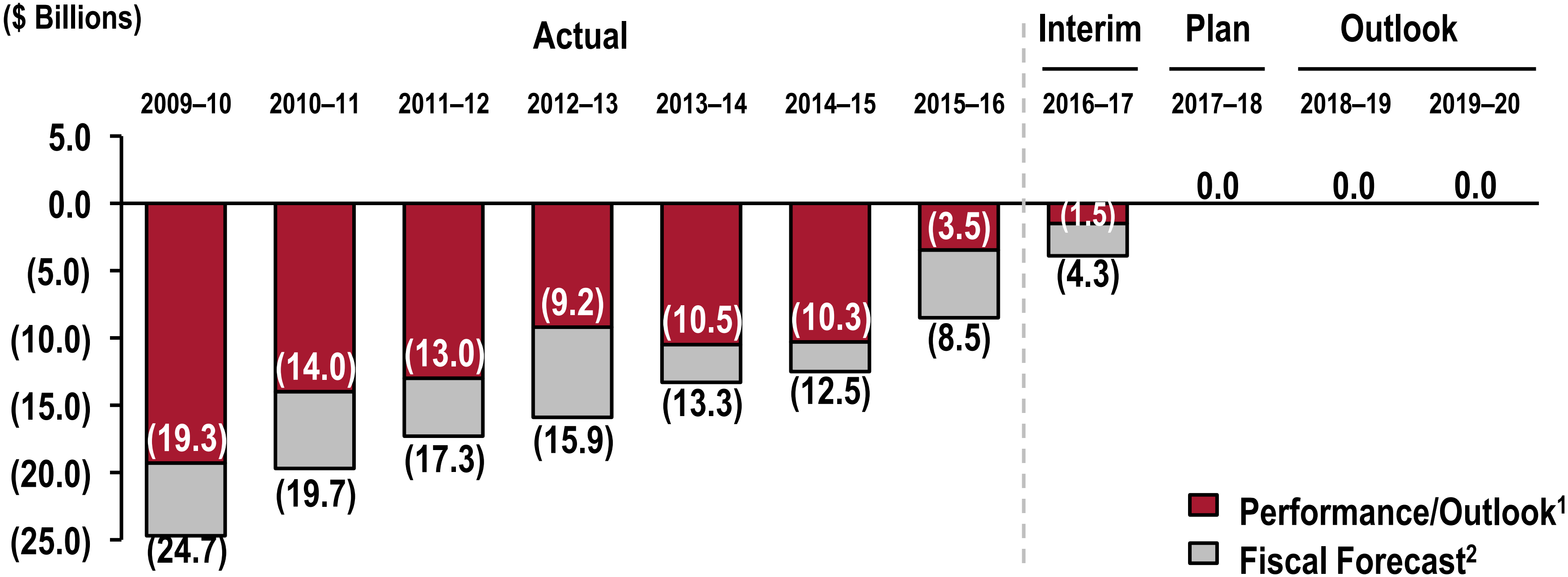
- Provide an overview of the 2017 Document fiscal outlook and narrative, including key metrics and overall changes since the *2016 Budget*.
- Provide a reminder of the underlying fiscal architecture, including risks, pressures and challenges, as well as potential critiques of the plan on Document day and beyond.

2017 Document Fiscal Outlook and Narrative

Restoring Balance

- The 2017 Document plan delivers on the government's *2010 Budget* commitment to restore fiscal balance in 2017-18. The Province is also projecting balanced budgets in both 2018-19 and 2019-20.
- For th~~e 2016-17 fiscal year, the government is forecasting~~ a deficit of $1.5 billion; the eighth year in a row that it is projecting to beat its deficit target.

Fiscal Balance
($ Billions)



[1] Represents the *2017 Budget* outlook for 2016–17 to 2019–20. For 2009–10 to 2015–16, actual results are presented. The 2015–16 actuals have been restated to reflect recognizing jointly sponsored net pension assets for the Ontario Public Service Employees' Union Pension Plan and the Ontario Teachers' Pension Plan on the Province's financial statements, consistent with the *2016 Budget* and as described in the *2016–17 Third Quarter Finances*.

[2] Forecast for 2009–10 is based on the *2009 Ontario Economic Outlook and Fiscal Review,* 2010–11 to 2013–14 is based on the *2010 Budget*; 2014–15 is based on the *2014 Budget*; 2015–16 is based on the *2015 Budget;* 2016–17 is based on the *2016 Budget*.

2016-17 In-Year Fiscal Performance

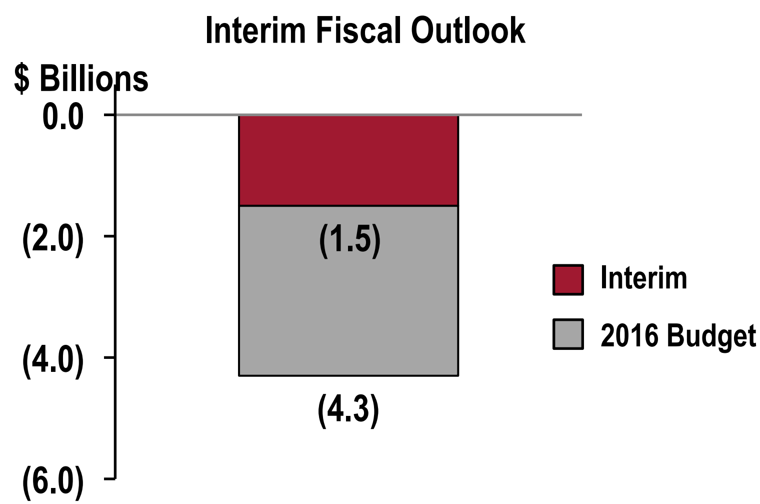
The 2016–17 deficit is projected to be $1.5 billion — an improvement of $2.8 billion compared with the 2016 Budget forecast.

Revenue: Total revenue is projected to be $2.6 billion above the 2016 Budget Plan largely due to higher taxation revenues and stronger total net incomes from GBEs, partially offset by lower other revenues.

Expense: Total expense is projected to be $0.9 billion higher than forecast in the *2016 Budget*.

- Program expense is projected to be higher as a result of investments in health care, social services, the Green Investment Fund initiatives, federal-provincial investments in infrastructure, and the Ontario Rebate for Electricity Consumers.
- Lower IOD expense is due to lower interest rates and cost-effective debt management.

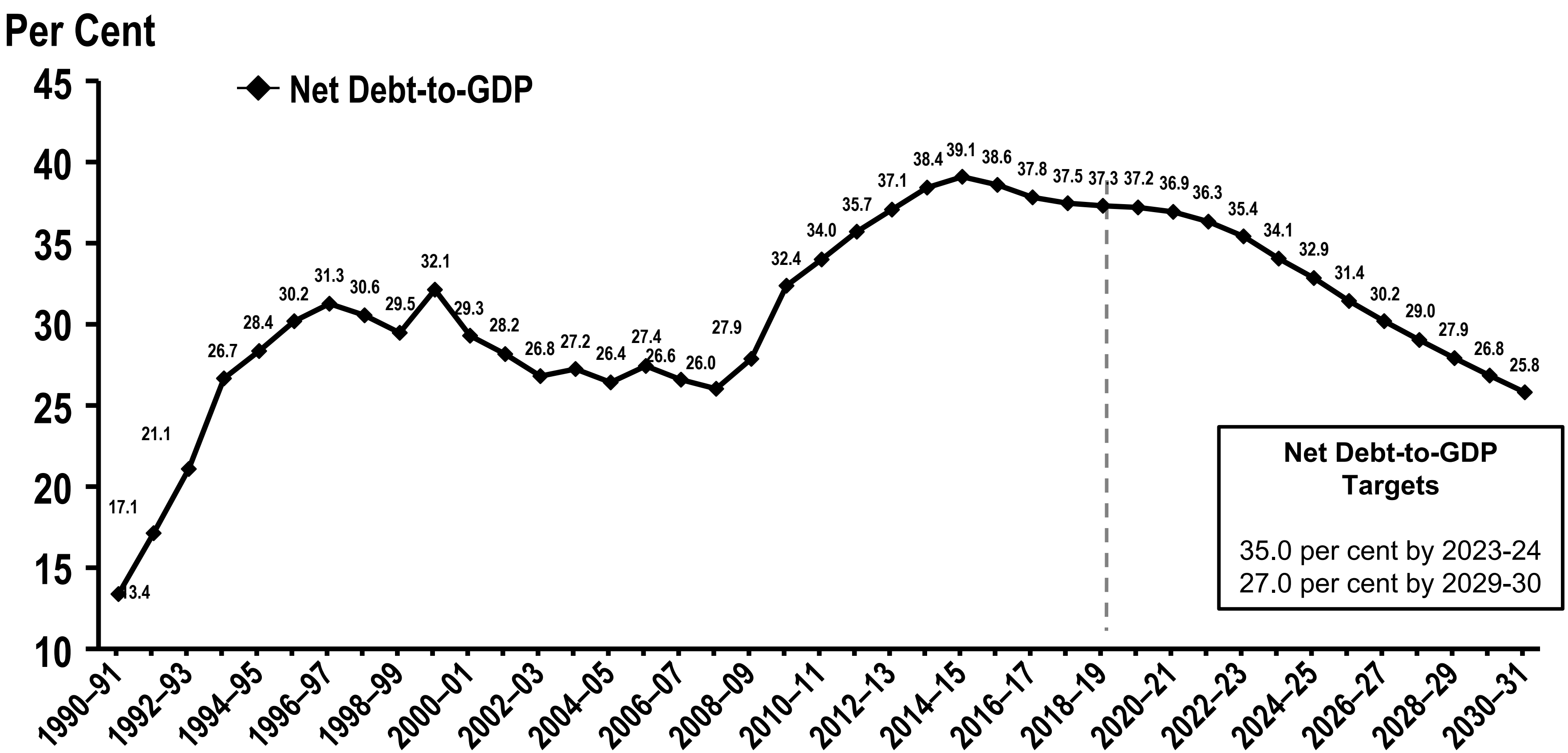
Reserve: With a higher than expected revenue forecast exceeding higher projected expense, it is anticipated that the reserve will not be required by year-end and has been drawn down.



$ Billions	Budget 2016-17	Change to Report	Interim 2016-17
Revenue	**130.6**	***2.6***	**133.2**
Expense			
Programs	122.1	*1.4*	123.5
Interest on Debt	11.8	*(0.5)*	11.3
Total Expense	**133.9**	***0.9***	**134.8**
Surplus/(Deficit) Before Reserve	**(3.3)**	***1.8***	**(1.5)**
Reserve	1.0	*(1.0)*	–
Surplus/(Deficit)	**(4.3)**	***2.8***	**(1.5)**
Net Debt-to-GDP (Per Cent)	**39.6**		**37.8**

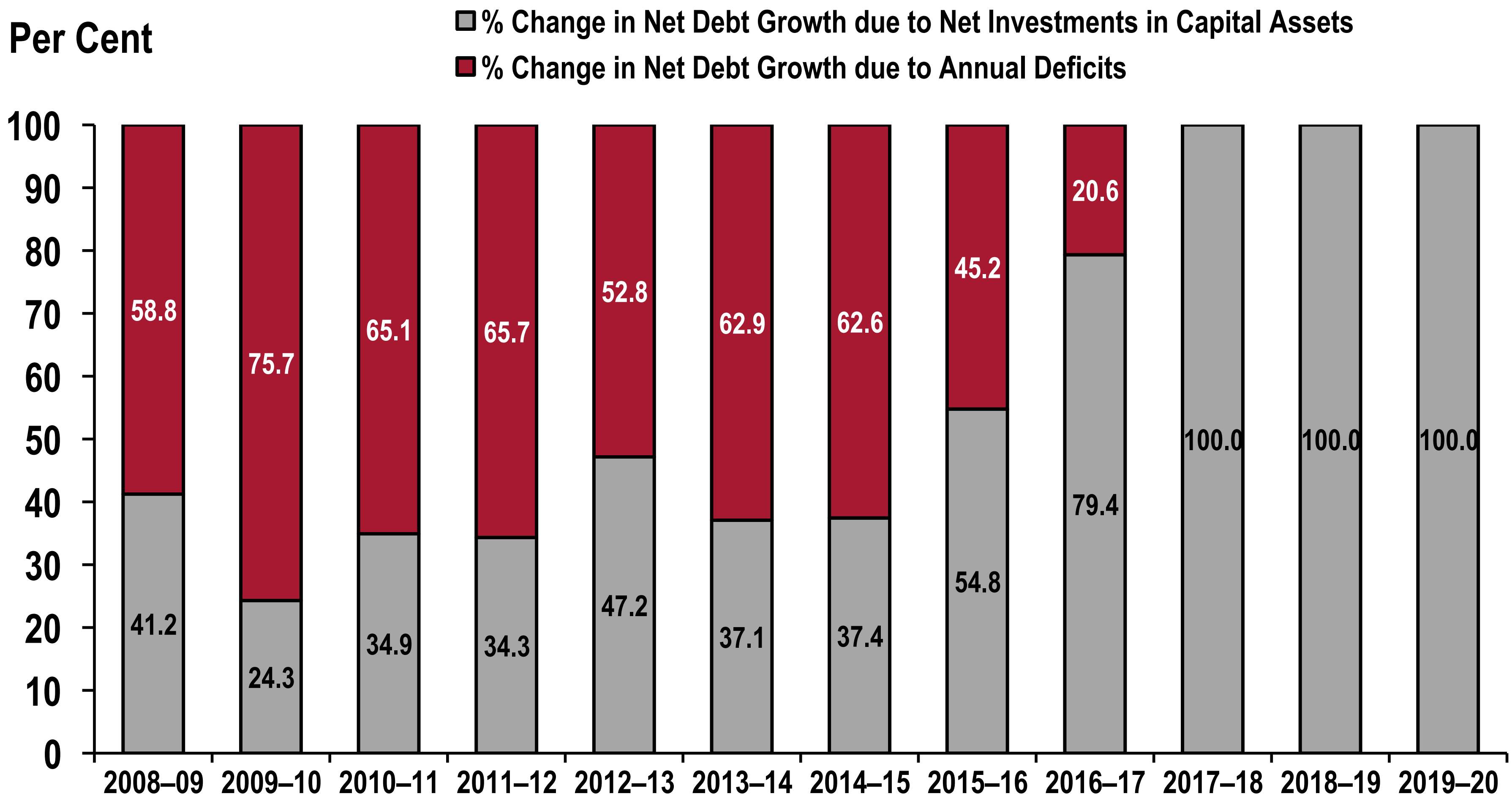
Net Debt-to-GDP

Ontario's net debt-to-GDP ratio is projected to continue to decline to 37.2 per cent in 2019–20. The government is setting an interim net debt-to-GDP ratio target of 35 per cent by 2023–24 and continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, currently projected to be achieved by 2029–30.



Notes: Net Debt has been restated to include Broader Public Sector Net Debt, starting in 2005–06.
Source: Ontario Ministry of Finance.

Net Debt Growth after Balance



Notes: The 2015–16 actuals have been restated to reflect recognizing jointly sponsored net pension assets for the Ontario Public Service Employees Union and the Ontario Teachers' Pension Plan on the province's financial statements, consistent with the *2016 Budget* and as described in the *2016—17 Third Quarter Finances*.
Source: Ontario Financing Authority.

Document Narrative Highlights

- *The government is delivering on its 2010 Budget commitment to balance the budget in 2017-18 – the first time the Province has been in balance since the 2008-09 global recession. The government is also projecting balanced budgets in both 2018–19 and 2019–20.*
- *Net debt-to-GDP has been on a declining track since 2014-15 – and balanced budgets will ensure that the increase in net debt will be limited to net investments in capital – and that this ratio will continue to decline to its pre-recession levels, while interest on debt as a proportion of revenues will remain at its lowest level since the early 1990's.*
- *Restoring balance has been achieved by implementing the government's plan to create jobs and grow the economy while responsibly managing growth in program expense.*
- *Rather than cutting programs and services to achieve balance quickly, the government made critical investments in the areas that matter most – like healthcare, education, and the expansion and renewal of Ontario's infrastructure – while transforming public services and making them more efficient and effective. The government also took aim at the underground economy to ensure everyone paid their fair share.*
- *A balanced budget means that the government will no longer need to borrow to pay for its ongoing operating costs. The result: more money to invest in health care, education and other public services that matter most to Ontario families.*
- *The 2017 Document delivers on a balanced budget and invests in key priorities such as:*
  - *Increasing access to affordable, quality child care; providing universal pharmacare for Ontario's children and youth; making student tuition free for low-income students; and lowering electricity costs.*

Fiscal Outlook: Change from 2016 Budget

2016 Budget Fiscal Plan					Change to 2017 Document			2017 Document Outlook			
$ Billions		16-17	17-18	18-19	16-17	17-18	18-19	16-17	17-18	18-19	19-20*
Revenue		**130.6**	**137.7**	**141.9**	***2.6***	***3.9***	***3.0***	**133.2**	**141.7**	**144.9**	**149.3**
	annual growth	*1.7%*	*5.5%*	*3.0%*				*3.8%*	*6.3%*	*2.3%*	*3.1%*
Expense											
Programs		122.1	124.2	127.6	*1.4*	*5.3*	*4.7*	123.5	129.5	132.3	135.8
	annual growth	*1.0%*	*1.7%*	*2.8%*				*2.1%*	*4.8%*	*2.2%*	*2.7%*
Interest on Debt		11.8	12.5	13.1	*(0.5)*	*(0.9)*	*(1.1)*	11.3	11.6	12.0	12.6
	annual growth	*7.2%*	*5.9%*	*5.3%*				*2.6%*	*2.9%*	*3.9%*	*5.0%*
Total Expense		**133.9**	**136.6**	**140.7**	***0.9***	***4.4***	***3.6***	**134.8**	**141.1**	**144.3**	**148.4**
	annual growth	*1.5%*	*2.0%*	*3.0%*				*2.2%*	*4.7%*	*2.3%*	*2.9%*
Surplus/(Deficit) Before Reserve		**(3.3)**	**1.1**	**1.2**	***1.8***	***(0.5)***	***(0.6)***	**(1.5)**	**0.6**	**0.6**	**0.9**
Reserve		1.0	1.1	1.2	*(1.0)*	*(0.5)*	*(0.6)*	0.0	0.6	0.6	0.9
Surplus/(Deficit)		**(4.3)**	**0.0**	**0.0**	***2.8***	***0.0***	***0.0***	**(1.5)**	**0.0**	**0.0**	**0.0**
Net Debt-to-GDP (%)		***39.6***	***38.9***	***38.5***				***37.8***	***37.5***	***37.3***	***37.2***

*A forecast for 2019-20 was not published in the *2016 Budget.*

2017 Document: Total Revenue Outlook

Ontario's Medium-Term Fiscal Plan and Outlook
$ Billions

	Actual 2015-16	Interim 2016-17	Plan 2017–18	Outlook 2018–19	Outlook 2019–20	Avg. Ann. Growth 2015-16to 2019-20
Revenue						
Taxation Revenue	91.8	95.1	100.1	105.4	110.3	4.7%
Government of Canada	22.9	24.4	25.7	25.4	24.9	2.1%
Govt. Business Enterprises	4.9	5.3	4.9	5.7	6.0	5.2%
Other Non-Tax Revenue	8.8	8.5	11.0	8.3	8.1	-1.9%
Total Revenue	**128.4**	**133.2**	**141.7**	**144.9**	**149.3**	**3.9%**

Key Features:

- Taxation revenue growth largely driven by outlook for economic growth. Forecasted average pace of taxation revenue growth (5.1%) is stronger than nominal GDP growth (4.2%) based on the experience of the past two years during which average taxation revenue growth was faster than nominal GDP.
- Government of Canada transfers reflects existing agreements and funding formulas. Increases projected in healthcare and social transfers are largely offset by lower Equalization and time-limited infrastructure funding.
- Government Business Enterprise reflect projections for higher net income from OLG, LCBO and OPG.
- Other Non-Tax Revenues are fairly stable except for a sharp increase in 2017-18 due to rising projected returns from asset optimization (sales & rentals) and new carbon allowance proceeds.

Total Revenue: Change from 2016 Budget

2016 Budget Revenue Outlook $ Billions	16-17*	17-18	18-19	Change 16-17	Change 17-18	Change 18-19	Current Revenue Outlook 16-17	17-18	18-19	19-20**
Revenue										
Taxation Revenue	91.8	95.9	100.2	*3.2*	*4.1*	*5.2*	95.1	100.1	105.4	110.3
annual growth	*0.0%*	*4.5%*	*4.4%*				*3.5%*	*5.3%*	*5.3%*	*4.6%*
Gov't. of Canada	24.6	25.8	26.6	*(0.2)*	*(0.1)*	*(1.1)*	24.4	25.7	25.4	24.9
annual growth	*7.8%*	*4.7%*	*3.0%*				*6.7%*	*5.3%*	*-0.9%*	*-2.3%*
GBEs	5.0	5.3	5.7	*0.3*	*(0.5)*	*0.0*	5.3	4.9	5.7	6.0
annual growth	*2.4%*	*6.3%*	*6.9%*				*7.9%*	*-7.7%*	*16.9%*	*5.3%*
Other Non-Tax Rev	9.1	10.6	9.4	*(0.6)*	*0.3*	*(1.1)*	8.5	11.0	8.3	8.1
annual growth	*3.5%*	*17.0%*	*-11.3%*				*-3.6%*	*29.6%*	*-24.2%*	*-2.2%*
Total Revenue	**130.6**	**137.7**	**141.9**	***2.6***	***3.9***	***3.0***	**133.2**	**141.7**	**144.9**	**149.3**
annual growth	*1.7%*	*5.5%*	*3.0%*				*3.8%*	*6.3%*	*2.3%*	*3.1%*

* Annual growth from 2015-16 to 2016-17 is based on 2015-16 Actuals.
** A forecast for 2019-20 was not published in the *2016 Budget*.

Key Changes:

- Increased outlook for **taxation revenues** reflect strength in 2016-17 revenues driven by the stronger economy in 2015 and 2016, and tax returns processed for 2015 and prior years. The increase rises in 2017-18 and 2018-19 by building into the forecast the factors that boosted 2016-17 above expectations such as the stronger CIT and HST revenue growth.
- Changes in **Government of Canada transfers** reflect new funding for healthcare and public transit infrastructure projects, largely offset by lower projected Equalization revenues.
- The revised **Government Business Enterprise** projection reflects stronger performance by OLG and LCBO in 2016-17, while lower 2017-18 is mainly due to the IFRS consolidation adjustment projected for OPG net income.
- Changes in the outlook for **Other Non-Tax Revenues** are mainly due to revised projections from carbon allowances and asset optimization.

2017 Document: Total Expense Outlook

Ontario's Medium-Term Fiscal Plan and Outlook
$ Billions

	Actual	Interim	Plan	Outlook			*Published 2016 Budget*
	2015-16	2016-17	2017–18	2018–19	2019–20	Avg. Ann. Growth 15-16 to 19-20	Avg. Ann. Growth 14-15 to 18-19
Programs							
Health Sector	51.0	52.2	53.8	56.3	58.1	3.3%	1.8%
Education Sector	25.0	25.7	26.5	27.4	28.0	2.8%	1.2%
Postsecondary Sector	7.7	7.8	8.4	8.3	8.4	2.5%	1.1%
Social Services Sector	15.6	16.2	16.9	17.2	17.4	2.7%	2.7%
Justice Sector	4.5	4.6	4.7	4.7	4.8	1.2%	1.2%
Other Programs Sector, includes:	17.1	17.0	19.2	18.4	19.2	2.9%	3.2%
*Program Review Savings Target**	-	-	-	*(0.8)*	*(0.8)*		
*Year-end Savings Target**	-	-	*(1.2)*	*(1.2)*	*(1.1)*		
*Contingency Funds **	-	*0.0*	*0.6*	*0.7*	*1.8*		
Program Expense	**120.9**	**123.5**	**129.5**	**132.3**	**135.8**	**2.9%**	**1.9%**
Interest on Debt	11.0	11.3	11.6	12.0	12.6	3.6%	5.4%
Total Expense	**131.9**	**134.8**	**141.1**	**144.3**	**148.4**	**3.0%**	**2.2%**

* 2018-19 and 2019-20 Program Review Savings Target, Year-end Savings Target, and Contingency funds are not reported explicitly.

Key Features

- The program expense outlook over the medium term is projected to be higher in each of 2016–17, 2017–18 and 2018–19, compared with the medium-term forecast in the 2016 Budget. This increase reflects the investments the government can continue to make as a result of restoring a balanced budget including:
  - Supporting hospitals, OHIP+:Children and Youth Pharmacare, home care and mental health services;
  - Supporting enrolment growth in schools, child care expansion and the Highly Skilled Workforce Strategy; and
  - Supporting electricity cost relief programs under the Fair Hydro Plan.
- Ontario's medium-term outlook for interest on debt expense is currently below the 2016 Budget estimate, primarily as a result of lower-than-forecast interest rates, along with effective and efficient debt management.

Total Expense: Change from 2016 Budget

2016 Budget Total Expense Outlook $ Billions	16-17*	17-18	18-19	Change 16-17	Change 17-18	Change 18-19	Current Total Expense Outlook 16-17	17-18	18-19	19-20**
Programs										
Health Sector	51.7	52.8	53.7	*0.5*	*1.0*	*2.5*	52.2	53.8	56.3	58.1
annual growth	*1.5%*	*1.9%*	*1.8%*				*2.3%*	*3.0%*	*4.6%*	*3.3%*
Education Sector	25.6	25.8	25.9	*0.1*	*0.8*	*1.5*	25.7	26.5	27.4	28.0
annual growth	*2.6%*	*0.5%*	*0.3%*				*3.0%*	*3.0%*	*3.2%*	*2.1%*
Postsecondary Sector	7.9	7.9	8.0	*(0.1)*	*0.5*	*0.3*	7.8	8.4	8.3	8.4
annual growth	*2.9%*	*-0.1%*	*1.9%*				*2.0%*	*7.7%*	*-0.9%*	*1.2%*
Social Services Sector	15.9	16.1	16.3	*0.3*	*0.8*	*0.9*	*16.2*	*16.9*	*17.2*	*17.4*
annual growth	*1.4%*	*1.7%*	*1.4%*				*3.7%*	*4.3%*	*1.9%*	*1.1%*
Justice Sector	4.5	4.5	4.6	*0.1*	*0.2*	*0.2*	*4.6*	*4.7*	*4.7*	*4.8*
annual growth	*-0.6%*	*-0.3%*	*1.5%*				*1.8%*	*1.8%*	*0.4%*	*0.8%*
Other Programs	16.5	17.2	19.1	*0.4*	*2.0*	*(0.7)*	17.0	19.2	18.4	19.2
annual growth	*-3.6%*	*3.9%*	*11.5%*				*-1.0%*	*13.3%*	*-4.2%*	*4.2%*
Total Program Expense	**122.1**	**124.2**	**127.6**	***1.4***	***5.3***	***4.7***	**123.5**	**129.5**	**132.3**	**135.8**
annual growth	*1.0%*	*1.7%*	*2.8%%*				*2.1%*	*4.8%*	*2.2%*	*2.7%*
Interest on Debt	11.8	12.5	13.1	*(0.5)*	*(0.9)*	*(1.1)*	11.3	11.6	12.0	12.6
Total Expense	**133.9**	**136.6**	**140.7**	***0.9***	***4.4***	***3.6***	**134.8**	**141.1**	**144.3**	**148.4**
annual growth	*1.5%*	*2.0%*	*3.0%*				*2.2%*	*4.7%*	*2.3%*	*2.9%*

* 2016 Budget amounts for 2016-17 are on a restated basis. Annual growth from 2015-16 to 2016-17 is based on 2015-16 Actuals.

** A forecast for 2019-20 was not published in the *2016 Budget*.

Key Changes:

- Growth in the **Health sector** reflects targeted funding for hospital services, reduced wait times, new OHIP+:Children and Youth Pharmacare, investments to increase access to primary care, home care and community care, and increased supports for people requiring mental health and addictions services.
- **Education sector growth is** mainly due to increased funding to school boards to support enrolment growth and new investments in child care.
- 2017-18 **Other Programs** expense growth is driven electricity cost relief programs under the Fair Hydro Plan, initiatives under the Climate Change Action Plan, and investments in transit and transportation.

2017 Document: Prudence

Ontario's Medium-Term Fiscal Plan and Outlook $ Billions	Actual 2015-16	Interim 2016-17	Plan 2017–18	Outlook 2018–19	 2019–20
Prudence in Fiscal Plan					
Program Review Target	-	-	-	(0.750)	(0.750)
Year-end Savings Target	-	-	(1.2)	(1.2)	(1.1)
Contingency Funds	-	0.0	0.6	0.7	1.8
Reserve	-	-	0.6	0.6	0.9

Note: Shaded area not reported explicitly.

Prudence Narrative

Reserve: *The reserve included in the fiscal plan has been set at $0.6 billion in 2017–18 and 2018–19, reflecting continued prudence while recognizing the confidence arising from a strengthening Ontario economy and a restoring of fiscal balance in Ontario.*

Private Sector Forecasts: *The Province's revenue outlook is based on prudent economic assumptions about the pace of growth in Ontario's economy. There are both positive and negative risks to the economic projections underlying the revenue forecast. …. For prudent fiscal planning, the Ministry of Finance's real GDP growth projections are slightly below the average private-sector forecast.*

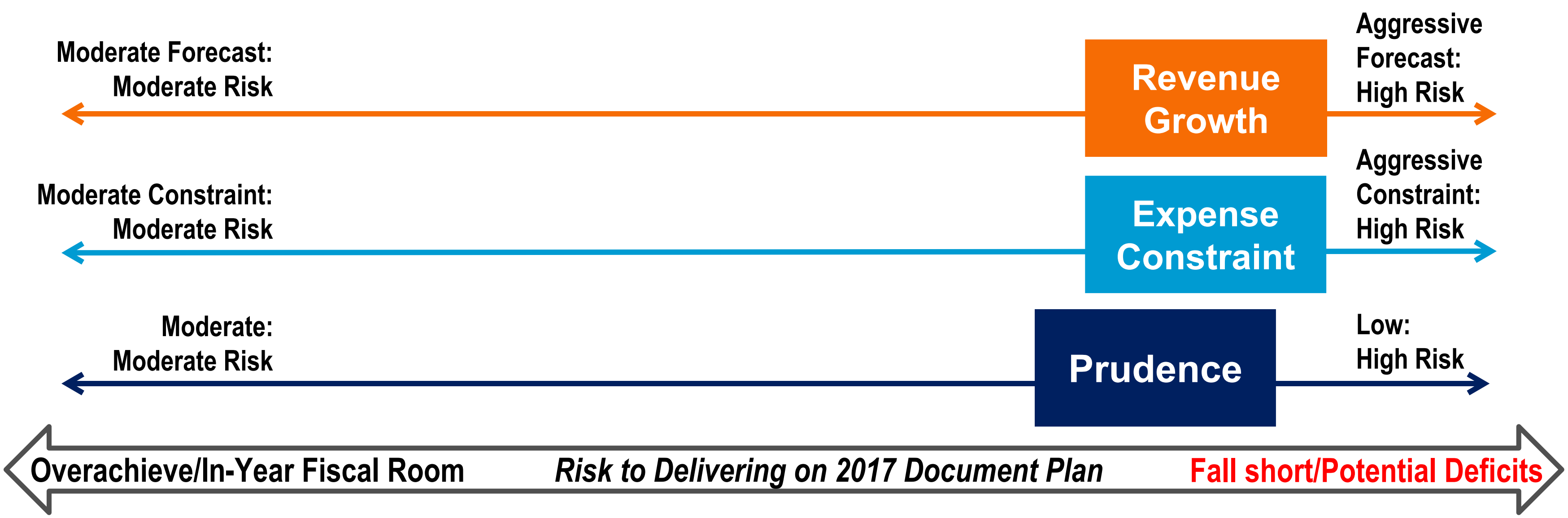
Contingency Funds: *The fiscal plan… includes contingency funds (both operating and capital) to help mitigate expense risks — particularly in cases where health and safety may be compromised or services to the most vulnerable are jeopardized — that may otherwise adversely affect Ontario's fiscal performance.*

Savings Targets: *The government has a strong track record in meeting its fiscal targets, and is building on the success of recent initiatives to support the Province's fiscal objectives. The government will expand the review of current programs to identify opportunities for transformation and to ensure that expense growth is managed within the plan laid out in this Budget .*

Risks and Challenges

Underlying Fiscal Architecture

- While the 2017 Document fiscal plan delivers on a published balanced budget, the underlying fiscal architecture and assumptions are strained – making the plan vulnerable to critique and risk.
  - **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 reflected.
- 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 expenditure management strategy** will be required.



Key 2017 Budget Revenue Risks

Internal Revenue Assumptions

$ Billions	2017-18	2018-19	2019-20
Stronger Housing Market Assumptions	**0.7**	**1.0**	**1.1**
Assumes modest slowing of housing market			
Remove Nominal GDP Prudence	**0.1**	**0.2**	**0.3**
Removes prudence from the nominal GDP forecast			
High-Yield CIT and HST assumptions	**0.8**	**1.1**	**1.4**
Forecast assumes revenue growth continues at stronger pace than would be expected on average given the economic outlook			
Revenue Integrity Targets	**0.1**	**0.2**	**0.4**
Assumes a successful and aggressive revenue integrity strategy including additional revenue from GBEs and introduction of Beer Tax			
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 economic forecasts for Ontario suggest it will decline.			
PIT: Assume Zero Tax Planning	**0.4**	**0.4**	**0.4**
Assumes 2015 increase in PIT revenues will carry forward			
IFRS Accounting Impact for OPG/H1	**-**	**0.5**	**0.5**
Excludes significant IFRS accounting impacts for OPG/Hydro One beyond 2017-18			

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.
- 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.
- 2018-19 Equalization outlook being unchanged from the known 2017-18 level is very unlikely to materialize. There is some potential that this could be offset by other new federal funding.
- 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.

Key 2017 Budget Expense Risks

Expense Risks

$ Billions	2017-18	2018-19	2019-20
Unfunded Ministry Pressures	**1.2**	**2.0**	**2.7**
Not all ministry pressures are funded as part of the 2017 Document – particularly in the health and social services sector, as well as the other sector where many ministries are flat-lined or declining.			
Cap and Trade Assumptions	**1.0**	**0.3**	**0.3**
Assumes fiscal benefit from fully realizing cap-and-trade proceeds, and then allocating a portion to in-plan projects and pre-flowed GIF in 17-18; as well as other CCAP capital projects that can be amortized.			
Aggressive IOD Savings	**0.1**	**0.4**	**0.6**
Includes aggressive assumptions related to IOD savings that may be difficult to achieve, particularly if interest rates rise, given that the customary prudence on IOD that has been incorporated into previous budgets has been removed.			

Risks

- While almost all ministries were provided with additional funding through preliminary allocations, PRRT approvals and new investments, there are many areas where pressures and risks were left unfunded.
- Key areas include potential OMA agreement, other collective bargaining, social assistance caseload risks, pressures in corrections, contaminated sites, land claims settlements and resource revenue sharing.
- Federal infrastructure funding may create pressure for provincial cost matching that has not been included in the plan.
- Funding for previously announced projects with cap-and trade proceeds may result in criticism from external stakeholders (e.g., FAO, Environmental Commissioner).

Reduced Prudence

$ Millions	2017-18	2018-19	2019-20
Contingency Fund: 2016 Budget	**1,716**	**3,490**	**3,870**
Contingency Fund: 2017 Document	**615**	**682**	**1,768**
While 2016 Budget Contingency Fund included significant amounts “set aside” for compensation, Moving Ontario Forward (outside the GTHA) and other pending investments, the 2017 Document amounts may not be sufficient to fund risks and upcoming collective agreements.			
Reserve: 2016 Budget	**1,100**	**1,200**	**n/a**
Reserve: 2017 Document (i.e. Surplus)	**600**	**600**	**900**
Reserve is at the lowest levels it has been in more than a decade.			
Total Savings Targets: 2016 Budget	**(1,200)**	**(1,225)**	**(1,075)**
Total Savings Targets: 2017 Document	**(1,200)**	**(1,975)**	**(1,825)**
Includes Year-End Savings and Program Review Targets.			

- During the period of deficit reduction, prudence was used to help overachieve on fiscal targets and help manage against lower than forecast revenue, or expense risks that could not be mitigated.
- Prudence has been reduced in almost every area of the fiscal plan – higher savings to be achieved (‘negative prudence’) and lower Contingency Funds and Reserves.
- However, the reserve now reflects the underlying surplus embedded in the fiscal plan, and thereby represents fiscal room against a balanced budget target.

Robust Post-Budget Strategy

Achieving Revenue Integrity Targets

- Undertake a thorough policy and legislative review of all taxes, including those shared with the federal government, to eliminate loopholes.
- 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.

Achieving Program Review and Year-End Savings Targets

- A robust in-year expenditure strategy to meet year-end savings targets.
- A systematic and strategic program review, focussed on ministry programs/spending, to meet targets, improve sustainability and enhance value-for-money.
- Separate from the program review, initiate a stream of outcome-focused and user-centered horizontal program transformation that capitalizes on opportunities for innovation.

Federal Engagement Strategy

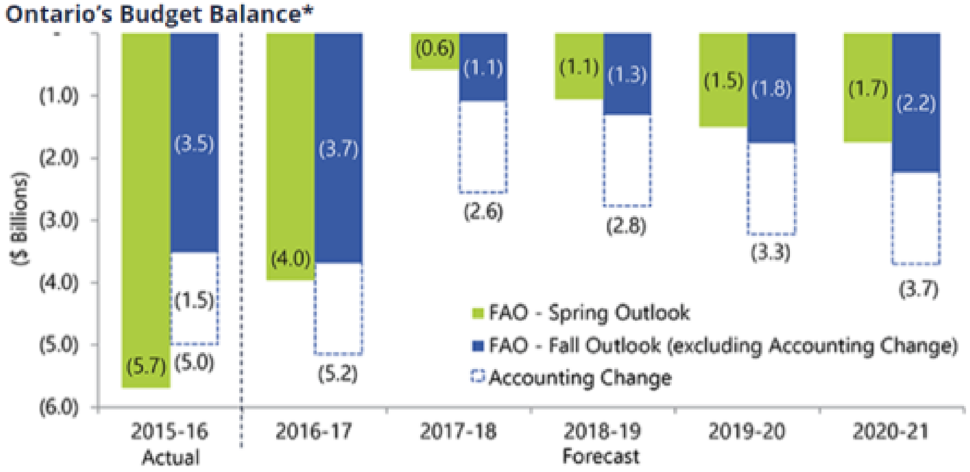
- While Ontario and the federal government have signed agreements in a number of areas, there may be additional opportunities to maximize new federal funding, minimize the negative impact of conditions on new programs, and leverage federal investment to support provincially-planned programs.
  - E.g. on indigenous files, climate change funding, infrastructure, innovation agenda, equalization program and early learning and childcare

Anticipated Stakeholder Reaction

- It is expected that the FAO will release a revised Economic and Fiscal Outlook for Ontario with projections over the medium-term.

- The fall FAO outlook stated that without additional measures to raise revenues or reduce expense, they expect Ontario to remain in deficit until 2020-21 and beyond.
  - The FAO will have greater access to information used to inform the 2017 Budget outlook and will closely scrutinize economic and revenue assumptions, including use of Cap and Trade proceeds to improve the Province's fiscal position.
  - It is not clear which interpretation of Pension Asset accounting the FAO will adopt in its analysis.
  - The FAO is also expected to release a long-term fiscal and economic outlook this fall – which will point to a structural deficit over the longer term.

Financial Accountability Office Analysis



- The Auditor General is not expected to support the government's position on Pension Asset accounting treatment and may criticize the government.

- Investors in Ontario's bonds, investment banks, and credit rating agencies will be pleased to see the plan for ongoing balanced budgets, but will also asses the credibility of the plan in light of reduced prudence in revenue and expense, as well as external factors, including trade protectionist policies in the U.S., and the potential impact of rising interest rates on the $190 billion capital plan.

- Recent advice from private sector economists has been to increase prudence in the fiscal plan, due to current heightened uncertainty; stakeholders may criticize the reduced prudence in the plan.

Appendix

2017 Document Fiscal Outlook

Ontario's Medium-Term Fiscal Plan and Outlook
$ Billions

	Actual 2015-16	Interim 2016-17	Plan 2017–18	Outlook 2018–19	Outlook 2019–20	Avg. Ann. Growth 2015-16to 2019-20
Revenue						
Taxation Revenue	91.8	95.1	100.1	105.4	110.3	4.7%
Government of Canada	22.9	24.4	25.7	25.4	24.9	2.1%
Govt. Business Enterprises	4.9	5.3	4.9	5.7	6.0	5.2%
Other Non-Tax Revenue	8.8	8.5	11.0	8.3	8.1	-1.9%
Total Revenue	**128.4**	**133.2**	**141.7**	**144.9**	**149.3**	**3.9%**
Programs						
Health Sector	51.0	52.2	53.8	56.3	58.1	3.3%
Education Sector	25.0	25.7	26.5	27.4	28.0	2.8%
Postsecondary Sector	7.7	7.8	8.4	8.3	8.4	2.5%
Social Services Sector	15.6	16.2	16.9	17.2	17.4	2.7%
Justice Sector	4.5	4.6	4.7	4.7	4.8	1.2%
Other Programs Sector, incl:	17.1	17.0	19.2	18.4	19.2	2.9%
Program Review Targets	–	–	–	*(0.8)*	*(0.8)*	
Year-end Savings Targets	–	–	*(1.2)*	*(1.2)*	*(1.1)*	
Contingency Funds	–	*0.0*	*0.6*	*0.7*	*1.8*	
Program Expense	**120.9**	**123.5**	**129.5**	**132.3**	**135.8**	**2.9%**
Interest on Debt	11.0	11.3	11.6	12.0	12.6	3.6%
Total Expense	**131.9**	**134.8**	**141.1**	**144.3**	**148.4**	**3.0%**
Reserve	-	-	0.6	0.6	0.9	
Surplus/(Deficit)	**(3.5)**	**(1.5)**	**0.0**	**0.0**	**0.0**	
Net Debt as a per cent of GDP	**38.6%**	**37.8%**	**37.5%**	**37.3%**	**37.2%**	