MMMP-Prep

Premier,

We have some time with you tomorrow in advance of next week's MMMP for an informal discussion about themes for the budget and forthcoming decisions regarding the fiscal plan. We are not expected to make any final decisions at this juncture – the numbers, both on the expense and revenue side of the leger will invariably change over the next few months. At this point in the planning process we deemed it would be important to at least level-set on the guiding framework for decision making and have a clearer sense of the overarching narrative the fiscal plan would ultimately need to support.

I've taken a first-cut at what I think could be a narrative/framework for the 2017 Budget. I tried my best to incorporate your feedback from our session before the holidays and your comments from our most recent policy-time. In large part, the proposed framework reflects what I believe to be a combination of what is feasible given our current fiscal context; trending economic domestic and global circumstances; and the growing interest trying to make cost of living more affordable for Ontarians. It is certainly work in progress. I look forward to your feedback, and using our time as an opportunity to speak to the proposed configuration.

As for the fiscal plan, I think approaching this process sequentially, where we identify priorities first and then develop a fiscal architecture to support it, is most efficient. We have been working closely with TBS/MOF on crafting options for considerations and they will be formally presented to you next week when you meet with Ministers Sousa, Sandals and Matthews. I would like to use some of our time tomorrow to bring you up to speed on a few developments, including an update on pension asset accounting and an early read on forthcoming tougher, more strategic PRRT decisions.

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Budget Narrative:

The 2017 Budget is an opportunity to reinforce that our government has and will continue to deliver positive change for Ontarians [make good on commitments made in Speech from the Throne], and set early frame for 2018 Budget/Election Platform.

Proposed Theme: Investing In People; Building Ontario Up for Everyone

Pillar A: Made-in-Ontario Plan for Jobs, Growth and the Economy

We should consider introducing a new 5 point Economic Plan that is focused on creating jobs, inclusive economic growth, and responding to an evolving global economy, but also ties in major government deliverables – like health and education - as important contributing components to a broader, more holistic economic strategy (investing in people).

1. Public Services you can count on

- Reclaiming our strong track record in health and education - ~3 percent increase in Healthcare and building stronger, more collaborative relationship with teachers, and reinforcing our commitment to core public services

2. Building Communities
- Highlighting major infrastructure investment as part of economic plan, and emphasizing local investment and impact through regional communications materials

3. Responsible Fiscal Management
- Delivering a balanced budget in 17/18 and 18/19

4. Investing in Today's Jobs and Tomorrow's Opportunities
- Bridge and streamline Highly Skilled Workforce and Business Growth Initiative narratives, and highlight new investments in manufacturing, disruptive/promising innovation (AI, 5G, etc.), and new training, skills development and youth jobs programs.

5. Fighting Climate Change
- Focus on clean-tech, and clean energy as important components of tomorrow's economy

Pillar B: Helping People in their Everyday Lives

Four signature deliverables to help make everyday life a bit more affordable for Ontarians:

1. Additional Hydro Relief
   - Delivering some level of additional hydro relief
2. Affordable Auto Insurance Reform
   - Delivering some level of additional auto insurance rate reductions
3. Free-Tuition
   - Re-profiling and maintaining our commitment to free-tuition
4. More Child Care Spaces
   - Investing in the first, significant tranche of new child-care spaces

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Fiscal Architecture:

The Pension Asset Advisory Panel briefed officials yesterday on recommendations surrounding the accounting treatment of our pension assets. The panel agrees that the net pension asset should be recognized in the Province's financial statements; recognizing the asset will provide a faithful representation of the Province's financial position; and recognizing the asset will properly reflect the intention of the "deal" between the sponsors. The Panel also concluded that no valuation allowance is required for either accrued benefit asset recognized in Public Accounts. In short, the panel has provided persuasive guidance that it would be correct to fully reclaim the pension asset, at its current value on our financial statements.

How we respond to the panel's recommendations will be our first decision point around the fiscal plan as it will re-set the fiscal gap we will need to solve for significantly. What follows is a series of important decisions around the application of expenditure measures. These will include re-visiting in year approvals, timing/scaling mandate letter commitments, and adding additional savings targets (not boulders!). Having a better sense of what the investment profile needs to look like, as in, what it will take to bring life to the budget narrative i.e. # of child care spaces in 17/18, and/or extent of additional hydro relief, will guide where we will have the "flexibility" to make other difficult expenditure decisions.

Thank you.

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