MMP: 2016 Fall Economic Statement Fiscal Outlook

Office of the Budget
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Purpose

To review the proposed fiscal outlook for the 2016 Fall Economic Statement (FES) and consider options for addressing fiscal pressures.

This presentation includes:

1. Recap of the current fiscal challenge
2. Update on recent developments with fiscal implications
3. Proposed approach to the fiscal outlook for the 2016 Fall Economic Statement
4. Path to the 2017 Document
5. Other FES narrative and storyboard opportunities

Context and Proposed FES Objectives

The FES provides a mid-year update on the government's economic and fiscal outlook, while the Budget is generally used as an opportunity for a more substantive update (e.g., new priorities/programs, change to fiscal architecture).

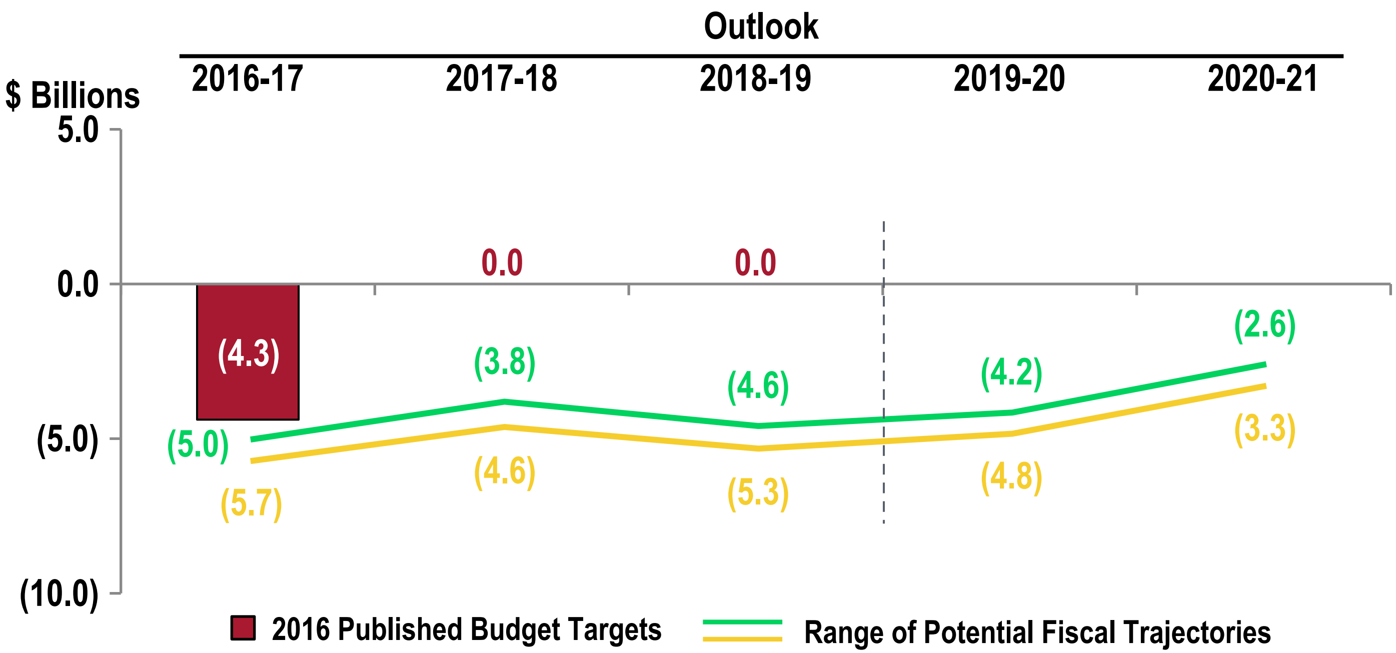
For the 2016 FES, the government will need to update on the latest economic/fiscal information and progress since the 2016 Budget, but it also has a decision to make regarding addressing the change in pension asset accounting from the 2015-16 Public Accounts.

What objectives should the 2016 FES seek to accomplish?

1. Demonstrate that the government is **on track to achieve its existing fiscal targets**, while making investments that will help Ontarians in their everyday lives and accommodating the change in pension asset accounting.
    - Link investments to sharing the benefits of Ontario's economic growth and responsible fiscal management, and making **progress on Speech from the Throne commitments**.
2. Adopt **a fair and defensible approach** to how the **pension asset accounting risk** is built into the out-years.
3. Position fiscal update and narrative such that it supports a **credible plan to balance** – i.e, not dependent upon a specific conclusion from the independent panel.
4. Ensure there is an opportunity **for the government to potentially revise its fiscal plan in the 2017 Document** – **to support a broader investment narrative** (rather than a change in pension accounting narrative).

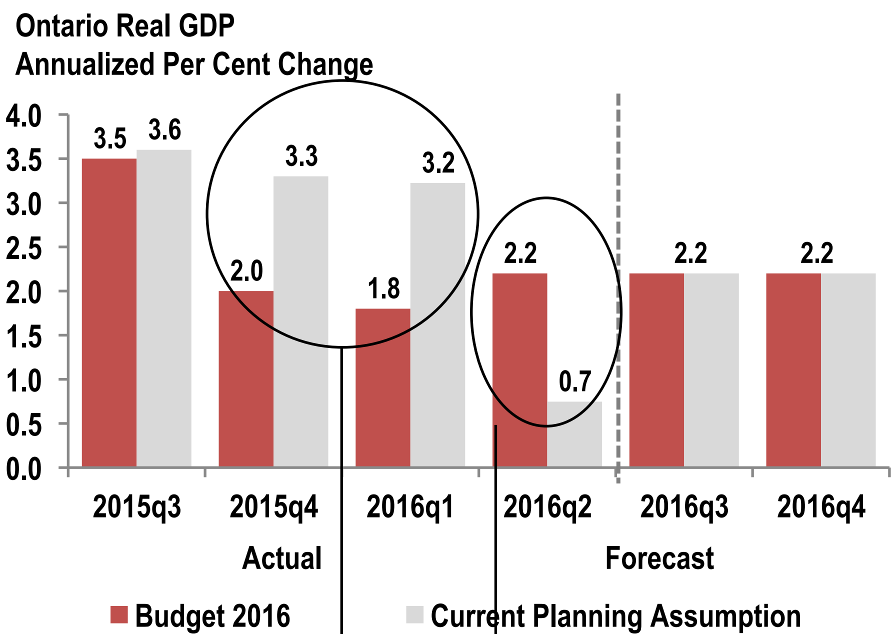
Recap of the Fiscal Challenge

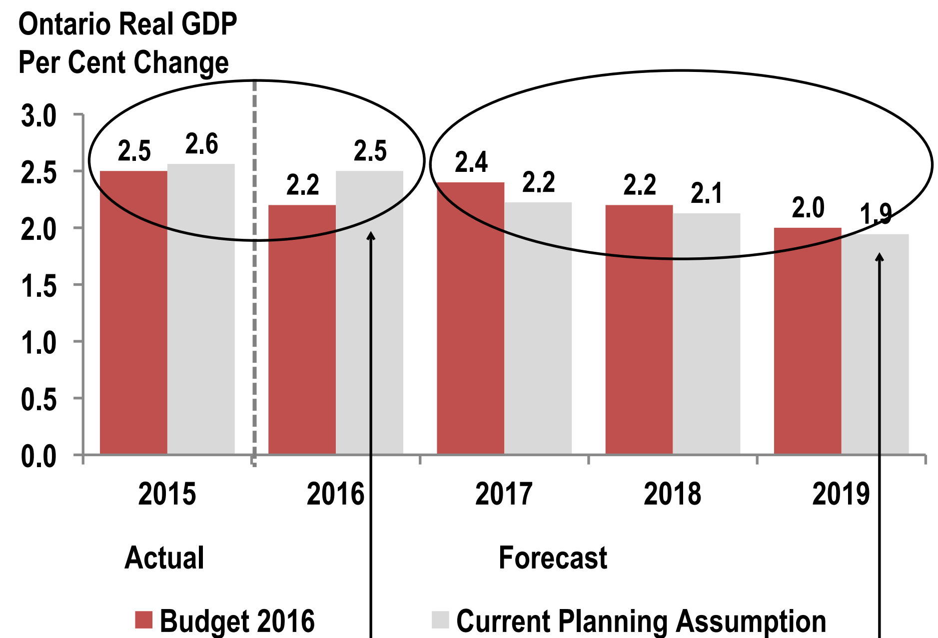
- In September, the assessment of available revenue and expense information, risks and pressures indicated a potential range of fiscal trajectories, **generating a gap relative to the 2016 Budget fiscal targets in each of 2016-17, 2017-18 and 2018-19**.



- These trajectories were informed by **higher than anticipated revenue** in each year than projected in the 2016 Budget, as well as flexibility from **lower interest on debt** expense – offset by **higher than anticipated program expense**.

Recent Developments: Ontario Real GDP Outlook has Shifted





Stronger 2015Q4 and 2016Q1

Weaker 2016Q2

Slightly stronger 2015 and 2016 growth

Slightly weaker 2017-19 growth reflects lower U.S. growth and Brexit

Recent Developments: Change in Pension Asset Accounting

- The 2015-16 Public Accounts reported results based on a time-limited legislated change to pension asset accounting. The change resulted in a revised final actual deficit for 2015-16 – from $3.5 billion to $5.0 billion.
- The forecast of the potential fiscal impact presented below is based on an actuarial assessment at the end of Jan. 2016. It is subject to change based on economic/demographic factors, other new information, and potential changes to future agreements with plan sponsors (incl. on how the pension surpluses can be used).
- The historical net fiscal impact of the accounting change on the deficit averages $1.5 billion over the last five years, and $1.3 billion over the last 10 years*.
- The annual impact of pension expense on the fiscal plan has also tended to consistently vary from Budget forecast to subsequent updates – meaning these estimates are subject to change (increase or decrease).

Preliminary Estimate of Potential Impact on Fiscal Plan of Change in Pension Asset Accounting Treatment ($ Millions)

		Actual	Plan	Medium Term Outlook	
		2015-16	2016-17	2017-18	2018-19
A	**Forecasted as part of 2016 Budget**				
	Teachers' Pension Plan Expense/(Surplus)	110	(452)	(820)	(1,110)
	Other Pension Plans**	1,114	953	818	792
B	**Revised Forecast with Change in Pension Assets Treatment**				
	Teachers' Pension Plan Expense	1,590	1,671	1,739	1,800
	Other Pension Plans**	1,148	1,069	1,035	1,625
C=B-A	**Potential Pressure on Fiscal Plan**				
	Teachers' Pension Plan Expense	*1,480*	*2,123*	*2,559*	*2,910*
	*Other Pension Plans***	*34*	*116*	*217*	*833*
	Total Potential Pressure on the Fiscal Plan	***1,514***	***2,240***	***2,775***	***3,744***

* Average 10 year impact was calculated excluding fiscal 2008-09. 2008-09 was an outlier as result of the 2008 financial crisis.
** Includes OPSEU Pension Plan Expense, Health Care of Ontario Pension Plan (HOOPP), and Colleges of Applied Arts and Technology Pension Plan (CAATPP)
Note: CAATPP and HOOPP is forecasted to reach the asset position by 2016-17 and 2017-18 based on the respected expected long-term investment return of the plans. However, if actual investment return performance is better than the long-term expected return, these plans may reach asset position earlier.

Proposed Approach to the Fiscal Outlook for 2016 FES

Since the 2016 Budget, new information has been received and new spending commitments and approvals have been made that need to be considered for the FES fiscal outlook.

However, it is important to note that the **potential FES fiscal outlook only addresses immediate reporting requirements and does not address the overall fiscal gap** the government is facing or account for potential information updates to come.

The following **principles** inform the current FES fiscal outlook.

Items to Include	Items to Not Include

✓ The impact on revenue of a stronger housing market, the latest tax return processing information, new federal agreements and slower nominal GDP growth, reflecting the 2016 Q2 Economic Accounts.
 	
✓ All minuted TB/MBC expense approvals for 2016-17 up to early October, (e.g., Hospital Pressures Funding), including contingency fund offsets.
 	
✓ The multi-year impact of spending approvals related to new federal agreements and government decisions with associated legislative changes (e.g., Electricity Price Mitigation).
 	
✓ Interest on debt savings in 2016–17, 2017–18, and 2018–19.
	✗ Updates to overall asset optimization strategy.
	
	✗ Variability in the revenue outlook that will remain until the receipt of key information in Dec. and Jan.
	
	✗ The impact of preliminary allocations, including:
	
	    ✗ Out-year impacts of in-year TB/MBC expense approvals, where government direction is for funding to be considered through the PRRT and 2017 Document processes (e.g., First Nations Health Action Plan, Autism and School Board Renewal Funding)
	
	    ✗ New policy initiatives that do not have policy or financial approvals and are under consideration, such as Project Momentum – Auto Sector Investments, and additional health funding (e.g., Revised Drug Strategy).
	
	✗ Other expense pressures being managed by ministries.

2016 Budget to Potential FES Outlook

Based on the principles in the previous slide, as well as new tools to achieve the government's fiscal targets, the potential fiscal outlook produces a deficit of $4.1 billion in 2016-17, a slight improvement relative to the 2016 Budget target, and balance in 2017-18 and 2018-19, consistent with the 2016 Budget targets.

2016 Budget Fiscal Plan $ Billions	15-16	16-17	17-18	18-19	Change 16-17	17-18	18-19	FES Outlook 16-17	17-18	18-19
Revenue	**128.4**	**130.6**	**137.7**	**141.9**	***1.2***	***0.6***	***0.6***	**131.8**	**138.4**	**142.5**
Expense										
Programs	122.4	120.9	122.4	124.1	–	–	–	120.9	122.4	124.1
In-Year Approvals	–	–	–	–	*0.3*	–	–	0.3	–	–
Child Care Expansion	–	–	–	–	–	–	–	–	–	–
Hospital Pressures Funding	–	–	–	–	*0.1*	–	–	0.1	–	–
Green Investment Fund	–	–	–	–	*0.3*	–	–	0.3	–	–
Electricity Price Mitigation*	–	–	–	–	*0.3*	*0.9*	*0.9*	0.3	0.9	0.9
Investment in Affordable Housing	–	–	–	–	*0.1*	–	–	0.1	–	–
PSE Strategic Investment Fund	–	–	–	–	*0.2*	*0.3*	*0.1*	0.2	0.3	0.1
Clean Water/Wastewater Fund	–	–	–	–	*0.1*	*0.3*	*0.1*	0.1	0.3	0.1
Contingency Fund	–	1.2	1.7	3.5	*(0.3)*	*(0.3)*	–	0.9	1.4	3.5
Total Programs	**122.4**	**122.1**	**124.2**	**127.6**	***1.2***	***1.3***	***1.2***	**123.3**	**125.4**	**128.7**
Interest on Debt	11.0	11.8	12.5	13.1	*(0.2)*	*(0.6)*	*(0.5)*	11.6	11.8	12.6
Total Expense	**133.4**	**133.9**	**136.6**	**140.7**	***1.0***	***0.6***	***0.6***	**134.9**	**137.3**	**141.3**
Reserve	–	1.0	1.1	1.2	–	–	–	1.0	1.1	1.2
Surplus/(Deficit)	**(5.0)**	**(4.3)**	**0.0**	**0.0**	***0.2***	***(0.0)***	***(0.0)***	**(4.1)**	**0.0**	**0.0**
Net Debt-to-GDP (%)*	***40.9***	***41.1***	***40.5***	***40.1***				***41.1***	***40.5***	***40.0***

Revenue:

- Improved revenue outlook from higher 2015-16 tax revenue base and 2016 strong housing market

Program Expense:

- In-year approvals with contingency fund offsets
- Key throne speech commitments
- Green Investment Fund
- Expense approvals associated with new federal agreements

Interest on Debt:

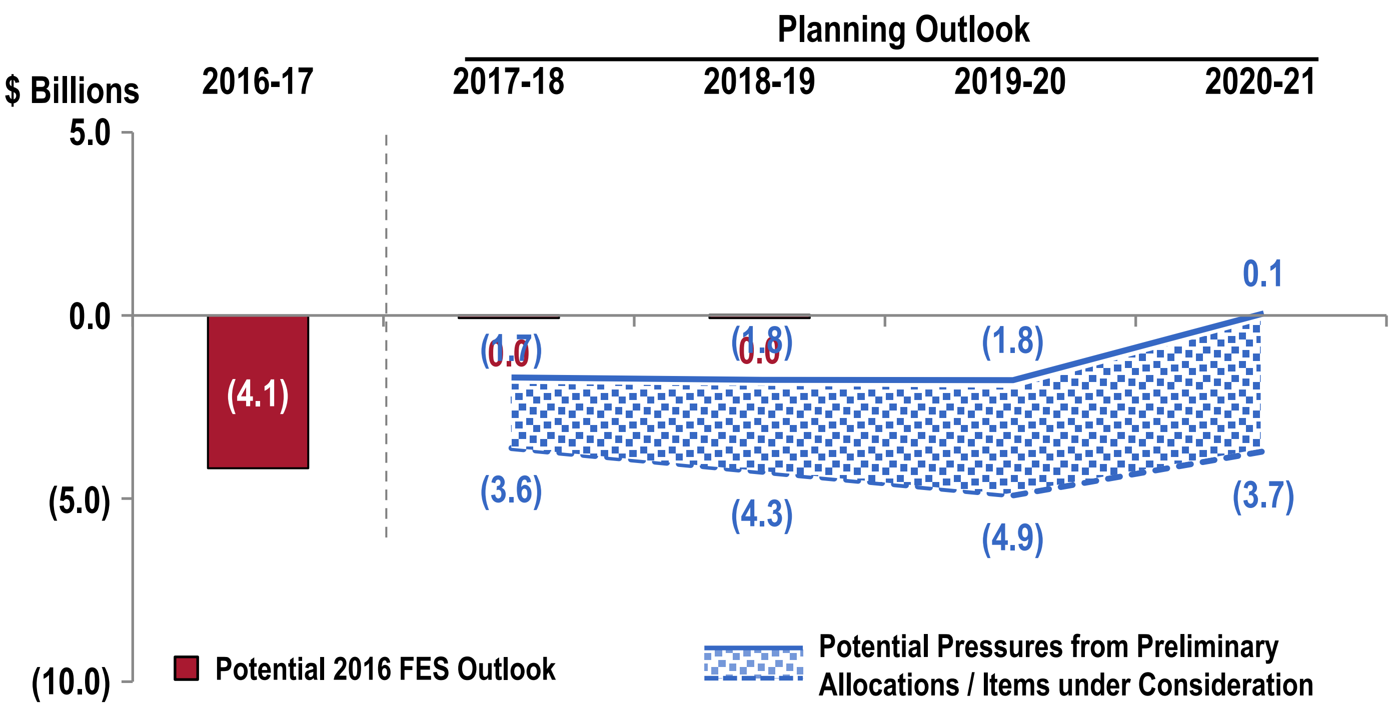
- Savings in each year.

Potential FES Outlook

*Electricity Price Mitigation expense for 2017–18 and 2018–19 is net of Cap and Trade offsets of $60 million per year.
** Includes impact of carrying forward net debt change from 2015-16 Public Accounts.

Remaining Fiscal Challenge Not Addressed in FES

- The **potential FES fiscal outlook only addresses immediate reporting requirements**. It does not address the potential fiscal impact of the pension accounting change, or other known and additional investments the government may want to make as part of the 2017 Document.
  - The impact of the preliminary allocations, without any tools to offset their impact, would result in deficits of $1.7 billion in 2017-18 and $1.8 billion in 2018-19, compared with the potential FES fiscal outlook.
  - This gap widens to $3.6 billion in 2017-18 and $4.3 billion in 2018-19 once items that are notionally under consideration for the PRRT and Document process are taken into account (e.g., SA rate increases, child care expansion, BGI, and Project Momentum).



Tools will need to be identified to address the above risks as part of the PRRT and Document process.

Key Decision Points: Addressing Pensions in FES

The government has a number of options to consider regarding how it could address the potential fiscal impact of the change in pension asset accounting in a multi-year fiscal update in the FES.

Decision Point: How to address the pension asset accounting risk?

Option 1

Address potential impact in **narrative only,** noting the ongoing independent review and the preliminary nature of estimates.

Option 2

Address **partial potential impact** on a multi-year basis (2016-17 to 2018-19) **and identify tools.**

Option 3

Address the **full potential impact** on a multi-year basis (2016-17 to 2018-19) **and identify tools.**

Decision Point: What are the levers available to achieve existing targets?

Potential Levers: Revenue, Expense, Reserve

Potential Tools

The following are potential tools available to maintain the 2016 Budget targets in FES and to address the broader fiscal challenge.

$ Billions	2016-17	2017-18	2018-19
FES Fiscal Outlook (Starting Point)	**(4.1)**	**0.0**	**0.0**
Potential Selection of Revenue Tools			
• More aggressive forecast assumptions	0.8	1.4	1.7
• Revised assumptions related to new federal funding	–	1.1	1.8
• Potential new revenue measures	0.3	1.0	1.1
	1.1	**3.5**	**4.6**
Potential Selection of Expense Tools			
• Further drawdown of the Contingency Fund: currently $0.9B in 16-17, $1.4B in 17-18, and $3.5B in 18-19.	0.2	0.3	0.3
• Increase year-end savings target: currently $0.8B in 16-17 and $1.0B in the out-years.	–	0.2	0.2
• Take on additional interest on debt savings.	0.1	0.1	0.2
	0.3	**0.6**	**0.7**
Reserve			
• Reduce the size of the Reserve: currently $1.0B in 16-17, $1.1B in 17-18 and $1.2B in 18-19.	**0.5**	**0.5**	**0.5**
Revise Deficit Forecast for 2016-17			
• Project a deficit of up to $4.8B in 16-17. Excluding a potential remaining reserve of $0.5B, this would result in a projected deficit of $4.3B, excluding the reserve – in line with the 2016 Budget fiscal target and an improvement on the $5.0B deficit in 2015-16.			
	0.7	**N/A**	**N/A**
Total Tools Available	**2.6**	**4.6**	**5.7**
Fiscal Impact of Pension Asset Accounting Change	**2.2**	**2.8**	**3.7**
Potential Pressures from Preliminary Allocations / Items Under Consideration		**1.7 to 3.6**	**1.8 to 4.3**

Option 1: Narrative Explanation of Potential Impact

- The FES fiscal outlook tables could show the 2015-16 results based on the time-limited legislated accounting for pension assets while showing the 2016-17 to 2018-19 outlook based on the 2016 Budget approach to accounting for pension assets.
- However, the potential impact of the pension asset accounting change could be presented in a below the line illustration of the potential impact – and supported in the narrative.

$ Billions	Actual 2015-16	Plan 2016-17	Outlook 2017-18	2018-19
Revenue	**128.4**	**131.8**	**138.4**	**142.5**
Expense				
Programs	122.4	123.3	125.4	128.7
Interest on Debt	11.0	11.6	11.8	12.6
Total Expense	**133.4**	**134.9**	**137.3**	**141.3**
Surplus/(Deficit) Before Reserve	**(5.0)**	**(3.1)**	**1.1**	**1.2**
Reserve	–	1.0	1.1	1.2
Surplus/(Deficit)	**(5.0)**	**(4.1)**	**0.0**	**0.0**
Estimate of Potential Net Impact of Pension Assets Change on Medium-Term Fiscal Outlook	–	**(2.2)**	**(2.8)**	**(3.7)**

Key Considerations

- The 2016-17 deficit improves relative to the 2016 Budget target.
- There are no changes to the revenue, expense, and interest on debt outlooks from tools to accommodate the pension asset accounting change.
- However, showing the below the line adjustment for the pension asset accounting change with no tools potentially indicates that the government will not achieve its targets or balance, depending on the advice of the expert panel or Auditor's final opinion next fall.
- Defers all decisions related to integrating the pension accounting change and other risks to the 2017 Document process.

Option 1: Narrative Explanation of Potential Impact

Potential FES narrative:

The Province is currently undertaking an independent review of the application of PSAB's pension accounting standards to Ontario's jointly sponsored pension plans. Based on the legislated accounting treatment for pension assets for the 2015-16 Public Accounts, the government's projected deficit could be higher by $2.2 billion in 2016-17, $2.8 billion in 2017-18 and $3.7 billion in 2018-19. These are preliminary estimates and are subject to change. The government will report on how these changes affect Ontario's fiscal outlook in the 2017 Document.

Narrative Challenges and Risks:

- If the change in pension asset accounting is not accommodated in the FES fiscal outlook, the public and financial stakeholders could raise questions about the government's ability to achieve its 2016 Budget targets and balance the budget.
- Would require a strong rationale for not taking on the potential change in pension asset accounting, given that the government reported the change for 2015-16 in the recent Public Accounts.

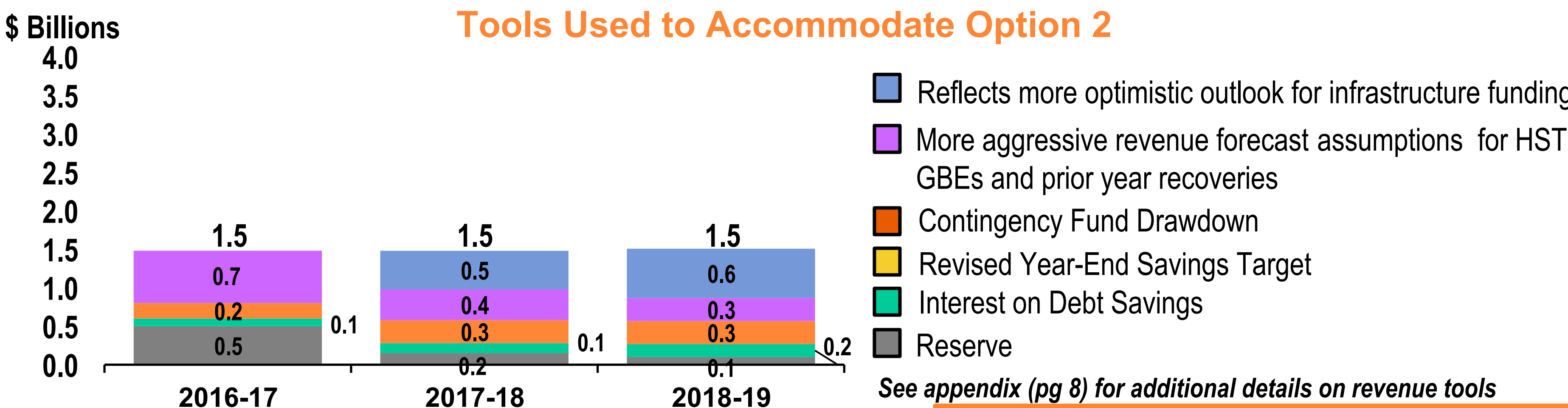
Option 1: Fiscal Outlook Details

2016 Budget Fiscal Plan					Change to FES			Changes to Address Pension Adjustment			FES Outlook – Narrative		
$ Billions	15-16	16-17	17-18	18-19	16-17	17-18	18-19	16-17	17-18	18-19	16-17	17-18	18-19
Revenue	**128.4**	**130.6**	**137.7**	**141.9**	***1.2***	***0.6***	***0.6***	–	–	–	**131.8**	**138.4**	**142.5**
Expense													
Programs	122.4	121.7	123.4	125.1	–	–	–	–	–	–	121.7	123.4	125.1
In-Year Approvals and Federal Agreements	–	–	–	–	*1.5*	*1.6*	*1.2*	–	–	–	1.5	1.6	1.2
Pensions Adjustment	–	–	–	–	–	–	–	–	–	–	–	–	–
Contingency Fund	–	1.2	1.7	3.5	*(0.3)*	*(0.3)*	–	–	–	–	0.9	1.4	3.5
Year-End Savings Target	–	(0.8)	(1.0)	(1.0)	–	–	–	–	–	–	(0.8)	(1.0)	(1.0)
Total Programs	**122.4**	**122.1**	**124.2**	**127.6**	***1.2***	***1.3***	***1.2***	–	–	–	**123.3**	**125.4**	**128.7**
Interest on Debt	11.0	11.8	12.5	13.1	*(0.2)*	*(0.6)*	*(0.5)*	–	–	–	11.6	11.8	12.6
Total Expense	**133.4**	**133.9**	**136.6**	**140.7**	***1.0***	***0.6***	***0.6***	–	–	–	**134.9**	**137.3**	**141.3**
Surplus/(Deficit) Before Reserve	**(5.0)**	**(3.3)**	**1.1**	**1.2**	***0.2***	***(0.0)***	***(0.0)***	–	–	–	**(3.1)**	**1.1**	**1.2**
Reserve	–	1.0	1.1	1.2	–	–	–	–	–	–	1.0	1.1	1.2
Surplus/(Deficit)	**(5.0)**	**(4.3)**	**0.0**	**0.0**	***0.2***	***(0.0)***	***(0.0)***	–	–	–	**(4.1)**	**0.0**	**0.0**
Net Debt-to-GDP (%)*	***40.9***	***41.1***	***40.5***	***40.1***							***41.1***	***40.5***	***40.0***

* Includes impact of carrying forward net debt change from 2015-16 Public Accounts.

Option 2: Tools to Accommodate a Partial Impact

This option would incorporate the historical average impact of the accounting change over the last five years (i.e., $1.5 billion). Some additional tools would be used to maintain the 2016 Budget targets.



See appendix (pg 8) for additional details on revenue tools

$ Billions	Actual 2015-16	Plan 2016-17	Outlook 2017-18	2018-19
Revenue	128.4	132.5	139.3	143.5
Expense				
Programs	122.4	123.2	125.0	126.3
Pensions Adjustment	–	1.5	1.5	1.5
Contingency Fund	–	0.7	1.1	3.2
Year-end Savings Target	–	(0.8)	(1.0)	(1.0)
Interest on Debt	11.0	11.5	11.7	12.4
Total Expense	**133.4**	**136.1**	**138.3**	**142.3**
Surplus/(Deficit) before Reserve	**(5.0)**	**(3.6)**	**1.0**	**1.1**
Reserve	–	0.5	1.0	1.1
Surplus/(Deficit)	**(5.0)**	**(4.1)**	**0.0**	**0.0**

Key Considerations

- The 2016-17 deficit improves relative to 2016 Budget target.
- Reflects some, but not all additional upside revenue tools.
- No increase to the year-end savings targets but does include drawing down the contingency fund, reducing flexibility to address expense pressures.
- Additional interest on debt savings.
- Reduces reserve in 2016-17, but maintains at least $1.0 billion reserve per year in out years.
- Taking these tools on now restricts flexibility in addressing risks as part of planning for the 2017 Document.

Option 2: Tools to Accommodate a Partial Impact

Potential FES narrative:

The government is projecting a deficit of $4.1 billion in 2016-17, an improvement compared to the 2016 Budget forecast, and is maintaining its commitment to balance in 2017-18 and 2018-19. The government is helping to grow the economy, create jobs, and ensure the sustainability of programs and services that help Ontarians in their everyday lives. As a result of the government's legislated accounting treatment of pension assets in the 2015-16 Public Accounts and to reflect the fact that the future fiscal impact of pension expense on the Province's finances is subject to variety of factors – including economic/demographics, new information, and potential changes to future agreements with plan sponsors – the government has included ***the five-year historical average impact of the potential accounting change, or $1.5 billion a year****, into the medium-term fiscal outlook. In addition, the government has established an independent panel to review the application of PSAB's pension accounting standard, which is expected to report back with recommendations by the end of 2016.*

Narrative Challenges and Risks:

- Could raise questions about what the total estimated impact of the pension accounting change is and would require a defensible rationale for only taking on part of the potential fiscal impact.
- Could lead to questions about how the government would accommodate the full impact and remain on track to balance.
- May lead to assertions that revenue forecast has been artificially increased to accommodate the change in the pension asset accounting, given recent forecasts for less optimistic economic growth for Ontario.
- May require a credible response to the assumptions for federal revenue given the recent multilateral federal-provincial negotiations.
- Could raise questions about the use of the reserve and reduction in prudence.

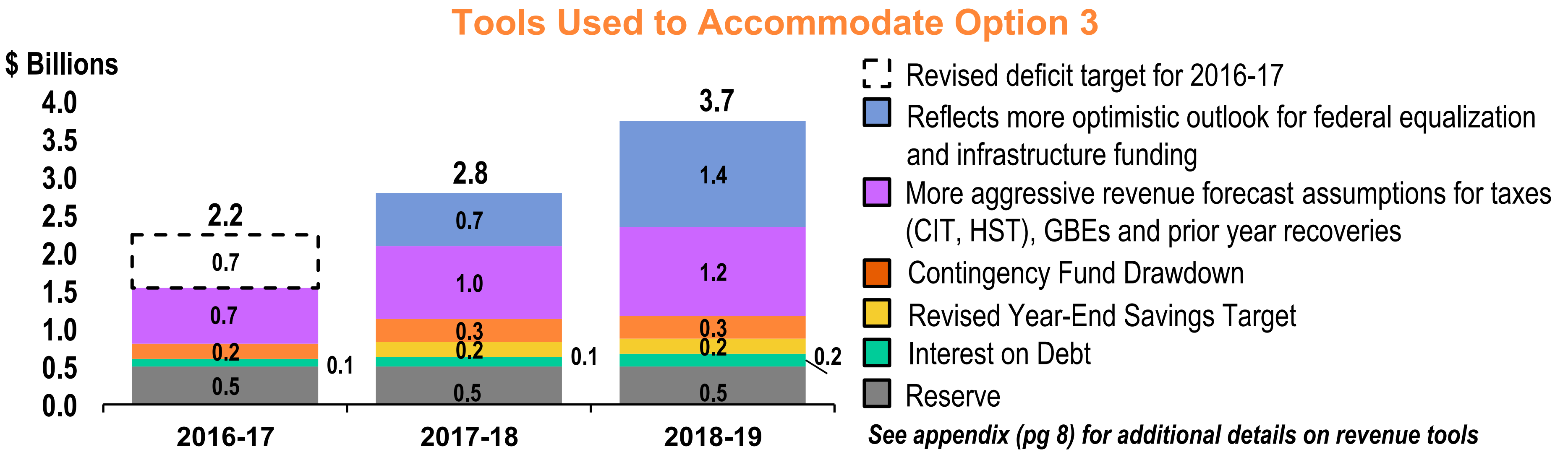
Option 2: Fiscal Outlook Details

2016 Budget Fiscal Plan					Change to FES			Changes to Address Pension Adjustment			FES Outlook – Partial Impact		
$ Billions	**15-16**	**16-17**	**17-18**	**18-19**	**16-17**	**17-18**	**18-19**	**16-17**	**17-18**	**18-19**	**16-17**	**17-18**	**18-19**
Revenue	**128.4**	**130.6**	**137.7**	**141.9**	***1.2***	***0.6***	***0.6***	***0.7***	***0.9***	***0.9***	**132.5**	**139.3**	**143.5**
Expense													
Programs	122.4	121.7	123.4	125.1	–	–	–	–	–	–	121.7	123.4	125.1
In-Year Approvals and Federal Agreements	–	–	–	–	*1.5*	*1.6*	*1.2*	–	–	–	1.5	1.6	1.2
Pensions Adjustment	–	–	–	–	–	–	–	*1.5*	*1.5*	*1.5*	1.5	1.5	1.5
Contingency Fund	–	1.2	1.7	3.5	*(0.3)*	*(0.3)*	–	*(0.2)*	*(0.3)*	*(0.3)*	0.7	1.1	3.2
Year-End Savings Target	–	(0.8)	(1.0)	(1.0)	–	–	–	–	–	–	(0.8)	(1.0)	(1.0)
Total Programs	**122.4**	**122.1**	**124.2**	**127.6**	***1.2***	***1.3***	***1.2***	***1.3***	***1.2***	***1.2***	**124.6**	**126.6**	**129.9**
Interest on Debt	11.0	11.8	12.5	13.1	*(0.2)*	*(0.6)*	*(0.5)*	*(0.1)*	*(0.1)*	*(0.2)*	11.5	11.7	12.4
Total Expense	**133.4**	**133.9**	**136.6**	**140.7**	***1.0***	***0.6***	***0.6***	***1.2***	***1.1***	***1.0***	**136.1**	**138.3**	**142.3**
Surplus/(Deficit) Before Reserve	**(5.0)**	**(3.3)**	**1.1**	**1.2**	***0.2***	***(0.0)***	***(0.0)***	***(0.5)***	***(0.2)***	***(0.1)***	**(3.6)**	**1.0**	**1.1**
Reserve	–	1.0	1.1	1.2	–	–	–	*(0.5)*	*(0.2)*	*(0.1)*	0.5	1.0	1.1
Surplus/(Deficit)	**(5.0)**	**(4.3)**	**0.0**	**0.0**	***0.2***	***(0.0)***	***(0.0)***	***(0.0)***	***(0.0)***	***(0.0)***	**(4.1)**	**0.0**	**0.0**
Net Debt-to-GDP (%)*	***40.9***	***41.1***	***40.5***	***40.1***							***41.1***	***40.5***	***40.0***

* Includes impact of carrying forward net debt change from 2015-16 Public Accounts.

Option 3: Tools to Accommodate the Full Impact

This option would incorporate the full potential fiscal impact of the accounting change in pensions. However, an aggressive set of tools would be needed to maintain balance in 2017-18 and 2018-19.



See appendix (pg 8) for additional details on revenue tools

$ Billions	Actual 2015-16	Plan 2016-17	Outlook 2017-18	Outlook 2018-19
Revenue	128.4	132.6	140.0	145.1
Expense				
Programs	122.4	123.2	125.0	126.3
Pensions Adjustment	–	2.2	2.8	3.7
Contingency Fund	–	0.7	1.1	3.2
Year-end Savings Target	–	(0.8)	(1.2)	(1.2)
Interest on Debt	11.0	11.5	11.7	12.4
Total Expense	**133.4**	**136.9**	**139.4**	**144.4**
Surplus/(Deficit) before Reserve	**(5.0)**	**(4.3)**	**0.6**	**0.7**
Reserve	–	0.5	0.6	0.7
Surplus/(Deficit)	**(5.0)**	**(4.8)**	**0.0**	**0.0**

Key Considerations

- 2016-17 deficit reflects deterioration from 2016 Budget target when reserve included.
  - Could further reduce the reserve, but this is uncommon midway through the year.
- Reflects significant upside revenue potential without factoring in downside risks.
- Increasing the year-end savings targets and drawing down the contingency fund reduces flexibility to address ministry expense pressures.
- Includes significant interest on debt savings.
- Taking these tools on now restricts flexibility in addressing risks as part of planning for the 2017 Document.

Option 3: Tools to Accommodate the Full Impact

Potential FES narrative:

The government's revenue and expense outlooks project that it is on track to meet its deficit target of $4.3 billion in 2016-17 – however, in recognition of potential risks that could impact the fiscal plan, the current year will continue to include a reserve, which if needed, would increase the deficit to $4.8 billion. The government remains committed to a balanced budget in 2017-18 and 2018-19. This includes investing to help grow the economy, create jobs, and ensure the sustainability of programs and services that help Ontarians in their everyday lives. It also accommodates the current estimate of the change in pension asset accounting.

Narrative Challenges and Risks:

- Difficult to claim that the government is still on track to balance the budget when the 2016 -17 deficit, with a reserve, has deteriorated by $0.5 billion.
- Could lead to questions about whether new investments will be made from the fiscal room created if the advice from the panel results in a different accounting treatment outcome.
- May lead to assertions that revenue forecast has been artificially increased to accommodate the change in the pension asset accounting, given forecasts for less optimistic economic growth for Ontario.
- Would require a credible response to the forecast for federal revenue given the recent multilateral federal-provincial negotiations.
- Could lead to questions on how the reserve is being used and whether there is enough prudence in the fiscal plan should there be additional pressures that have not already been accounted for and given the contingency fund has also been drawn down.

Option 3: Fiscal Outlook Details

2016 Budget Fiscal Plan $ Billions	15-16	16-17	17-18	18-19	Change to FES 16-17	17-18	18-19	Changes to Address Pension Adjustment 16-17	17-18	18-19	FES Outlook – Full Impact 16-17	17-18	18-19
Revenue	**128.4**	**130.6**	**137.7**	**141.9**	***1.2***	***0.6***	***0.6***	***0.7***	***1.7***	***2.6***	**132.6**	**140.0**	**145.1**
Expense													
Programs	122.4	121.7	123.4	125.1	–	–	–	–	–	–	121.7	123.4	125.1
In-Year Approvals and Federal Agreements	–	–	–	–	*1.5*	*1.6*	*1.2*	–	–	–	1.5	1.6	1.2
Pensions Adjustment	–	–	–	–	–	–	–	*2.2*	*2.8*	*3.7*	2.2	2.8	3.7
Contingency Fund	–	1.2	1.7	3.5	*(0.3)*	*(0.3)*	–	*(0.2)*	*(0.3)*	*(0.3)*	0.7	1.1	3.2
Year-End Savings Target	–	(0.8)	(1.0)	(1.0)	–	–	–	–	*(0.2)*	*(0.2)*	(0.8)	(1.2)	(1.2)
Total Programs	**122.4**	**122.1**	**124.2**	**127.6**	***1.2***	***1.3***	***1.2***	***2.0***	***2.3***	***3.2***	**125.4**	**127.7**	**132.0**
Interest on Debt	11.0	11.8	12.5	13.1	*(0.2)*	*(0.6)*	*(0.5)*	*(0.1)*	*(0.1)*	*(0.2)*	11.5	11.7	12.4
Total Expense	**133.4**	**133.9**	**136.6**	**140.7**	***1.0***	***0.6***	***0.6***	***1.9***	***2.1***	***3.1***	**136.9**	**139.4**	**144.4**
Surplus/(Deficit) Before Reserve	**(5.0)**	**(3.3)**	**1.1**	**1.2**	***0.2***	***(0.0)***	***(0.0)***	***(1.2)***	***(0.5)***	***(0.5)***	**(4.3)**	**0.6**	**0.7**
Reserve	–	1.0	1.1	1.2	–	–	–	*(0.5)*	*(0.5)*	*(0.5)*	0.5	0.6	0.7
Surplus/(Deficit)	**(5.0)**	**(4.3)**	**0.0**	**0.0**	***0.2***	***(0.0)***	***(0.0)***	***(0.7)***	***0.0***	***(0.0)***	**(4.8)**	**0.0**	**0.0**
Net Debt-to-GDP (%)*	***40.9***	***41.1***	***40.5***	***40.1***							***41.2***	***40.6***	***40.1***

* Includes impact of carrying forward net debt change from 2015-16 Public Accounts.

Other Narrative Elements (regardless of option)

While the potential FES fiscal outlook requires choices to be made and tools to be taken on, the government will be able to communicate the following core messages as part of FES:

- ✓ The government is also achieving its fiscal objectives while sharing the benefits of Ontario's economic growth and its responsible approach to fiscal management by investing in things that matter most and that help Ontarians in their everyday lives.
  - ✓ This includes electricity cost relief to Ontario consumers, investments in hospitals, and taking early action to increase the number of child care spaces.
- ✓ As part of its planning for the 2017 Document, the government will consider other tools and measures to ensure it can continue to support the Ontario economy and invest in priority areas in a fiscally sustainable way.

Key FES Decisions

Key Decisions

1. How to address the potential fiscal impact of the change in pension asset accounting and maintain the current path to balance in the FES.

    - How much of the potential fiscal impact to take on in the out-years.

    - What tools to take on to accommodate the potential fiscal impact of the change in pension asset accounting.

    - How to present/report the pension asset accounting change.

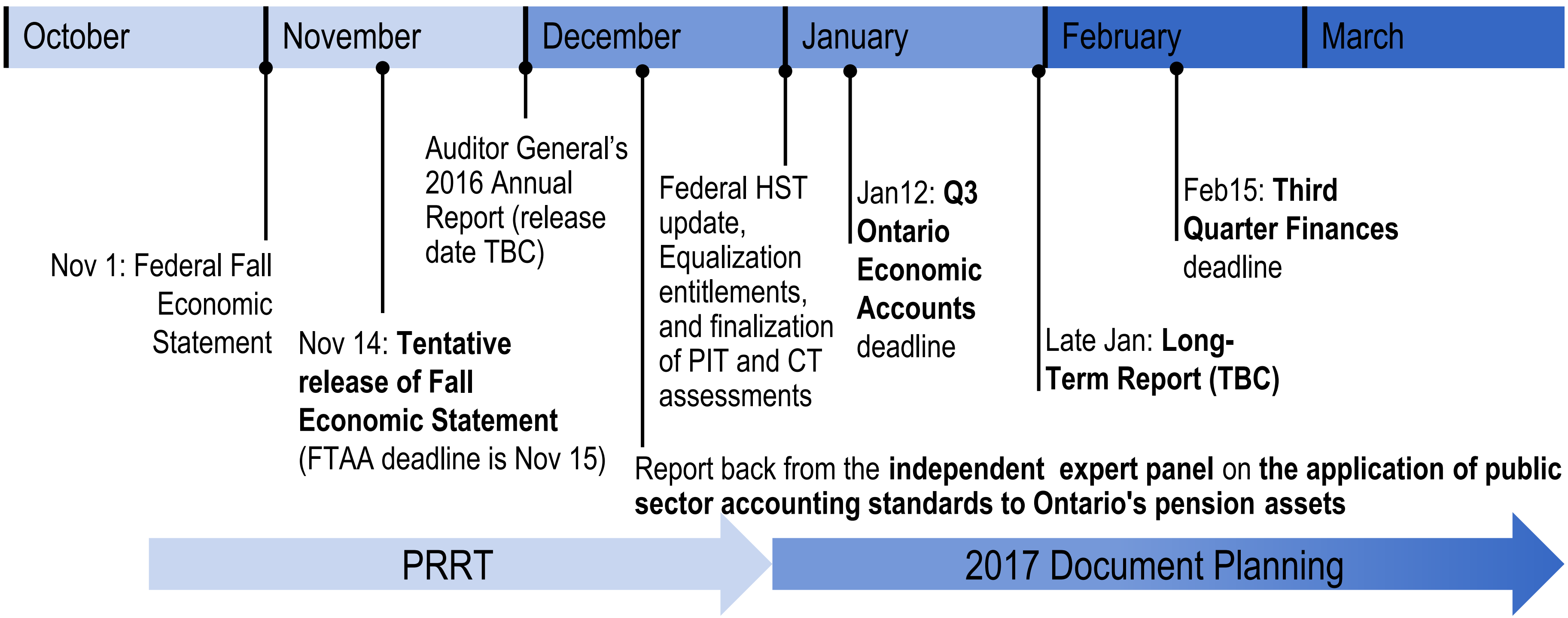
2. How to position the FES narrative to highlight the government's investments in key areas over the fiscal impact of the pension accounting change.

3. How to foreshadow in FES that the government will consider other tools or only change its fiscal plan and path to balance in order to fund investments to support the economy and protect public services?

Information Still to Come

There is still important information yet to be received and decisions that could potentially significantly impact the government's fiscal strategy for the 2017 Document.

As more information becomes available, it will help to solidify the outlook for 2016-17 and inform planning and assumptions for the out-years.



Ongoing Assessments and Updates (Revenue):

- Monthly updates to personal and corporate income tax and income from Government Business Enterprises
- Federal-Provincial negotiations related to federal transfers
- Progress on the government's asset optimization strategy

Ongoing Assessments and Updates (Expense):

- In-year TB/MBC expense approvals
- Ability to meet year-end savings targets
- Updates on compensation negotiations and alignment with set asides
- Interest on debt forecast updates