MMP:
Update on Fiscal Outlook & Path Forward

Draft - September 14th, 2016 9:00 AM

Purpose

Where the Fiscal Plan Is

- Provide a status update on:
  - Preliminary actual results for 2015-16; and
  - Fiscal outlook for 2016-17 to 2020-21, based on latest forecasts and assessment of risks.
- Provide a comparison of the current outlook to medium-term 2016 Budget targets and outline the current fiscal track out to 2020-21.

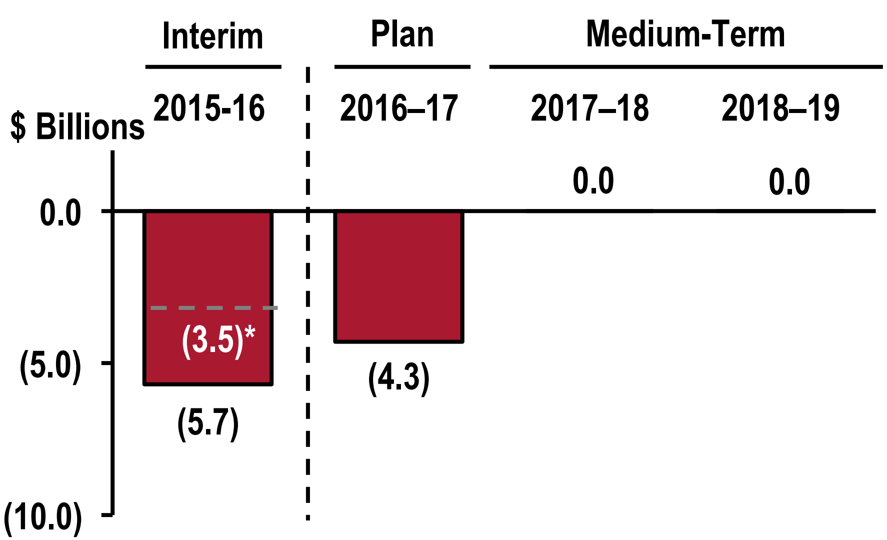
Path Forward & Potential Decisions

- Provide context for key fiscal decisions that will need to be addressed in the coming months.
- Foreshadow potential decisions required to support the government's overarching fiscal architecture, including for determining ministry expense allocations, and the fiscal strategies for the Fall Economic Statement and 2017 Document.

Context and 2016 Budget Recap

- The government laid out a plan in the 2010 Budget to balance the budget and is now only one year away from the deadline for delivering on that commitment.
- External stakeholders are looking for credible plans to balance the budget in 2017-18 and for the government to demonstrate fiscal sustainability by remaining balanced in future years.
- The 2016 Budget outlined a plan to deliver a balanced budget. Will need to take stock of progress on 2016 Budget assumptions, as delivering on these will be instrumental to the successful achievement of the plan.

2016 Budget Fiscal Targets



Net Debt-to-GDP

2016 Budget	39.6%	39.6%	38.9%	38.5%
Updated Outlook*	39.4%	39.5%	38.8%	38.4%

*Updated for preliminary actual results, revised 2015 nominal GDP.

Revenue Plan (2016-17 to 2018-19)

- **$3.4 billion** over three years in new, unconditional federal funding for infrastructure, home care and jobs and training
- **$4.2 billion** over three years in Cap-and-Trade proceeds
- **$1.3 billion** over three years in tax measures

Expense Plan (2016-17 to 2018-19)

- **$1.3 billion to $2.5 billion** per year in reduced expense from major transformation initiative plans (i.e. boulders)
- **Full Cap-and-Trade proceeds** available to fund both in-plan ($0.6 billion/year) and new climate change initiatives in 2017-18 and 2018-19
- **Contingency Funds** of $1.2 billion in 2016-17, growing to $3.5 billion in 2018-19, with portions notionally set-aside for compensation and Moving Ontario Forward

Reserve of $1.0 billion in 2016–17, $1.1 billion in 2017–18, $1.2 billion in 2018–19

2015-16 Public Accounts – Preliminary Actuals

The 2015-16 preliminary actuals are currently tracking to a deficit of $3.5 billion, before the potential impact of outstanding items.

2015-16 Preliminary Results						
$ Billions	**2014-15 Actual**	**2015 Budget**	**2015-16 Interim**	**2015-16 Preliminary Actuals**	**Change from 2015 Budget**	**Change from Interim**
Revenue	**118.5**	**124.4**	**126.5**	**128.4**	**4.0**	**1.8**
Expense						
Program Expense	118.2	120.5	120.9	120.9	0.4	-
Interest on Debt	10.6	11.4	11.2	11.0	(0.4)	(0.2)
Total Expenses	**128.8**	**131.9**	**132.1**	**131.9**	**-**	**(0.2)**
Reserve	-	1.0	0.2	**-**	(1.0)	(0.2)
Surplus/(Deficit)	**(10.3)**	**(8.5)**	**(5.7)**	**(3.5)**	**5.0**	**2.2**

Numbers may not add due to rounding.

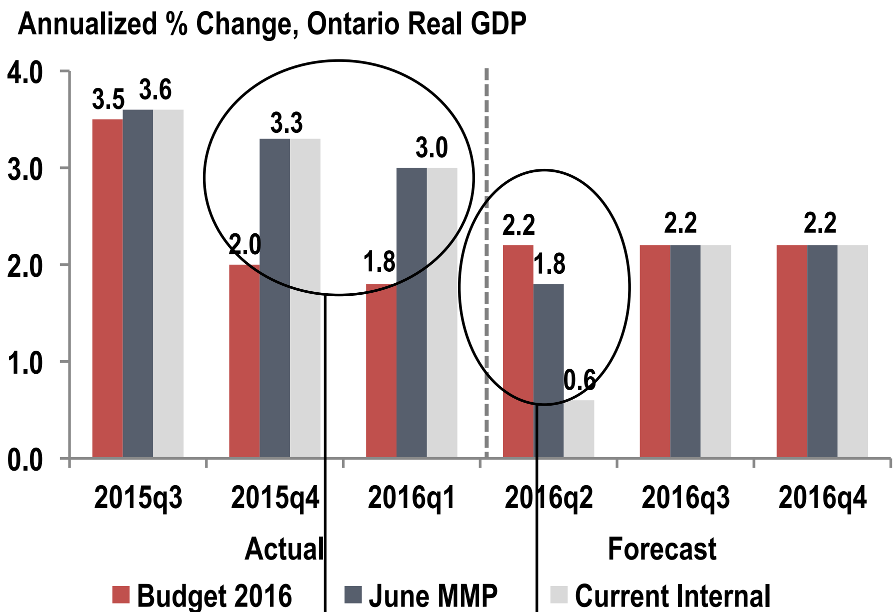
Outstanding Items

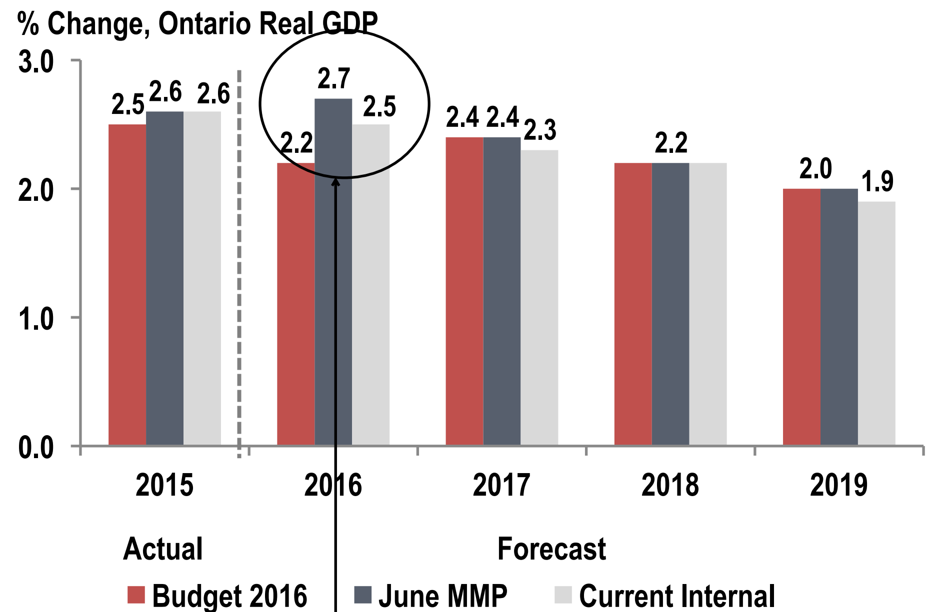
Discussions with the Auditor General regarding:

- OPG/H1 Basis of Reporting for 2015-16 Public Accounts
- HOOPP salary escalation rates
- Assessment of Pension Asset Ceiling risk

2016 Growth Remains Stronger than Budget

Ontario real GDP expected to rise 2.5% in 2016





Stronger 2015Q4 and 2016Q1 → Weaker 2016Q2 → Slightly stronger 2016 growth

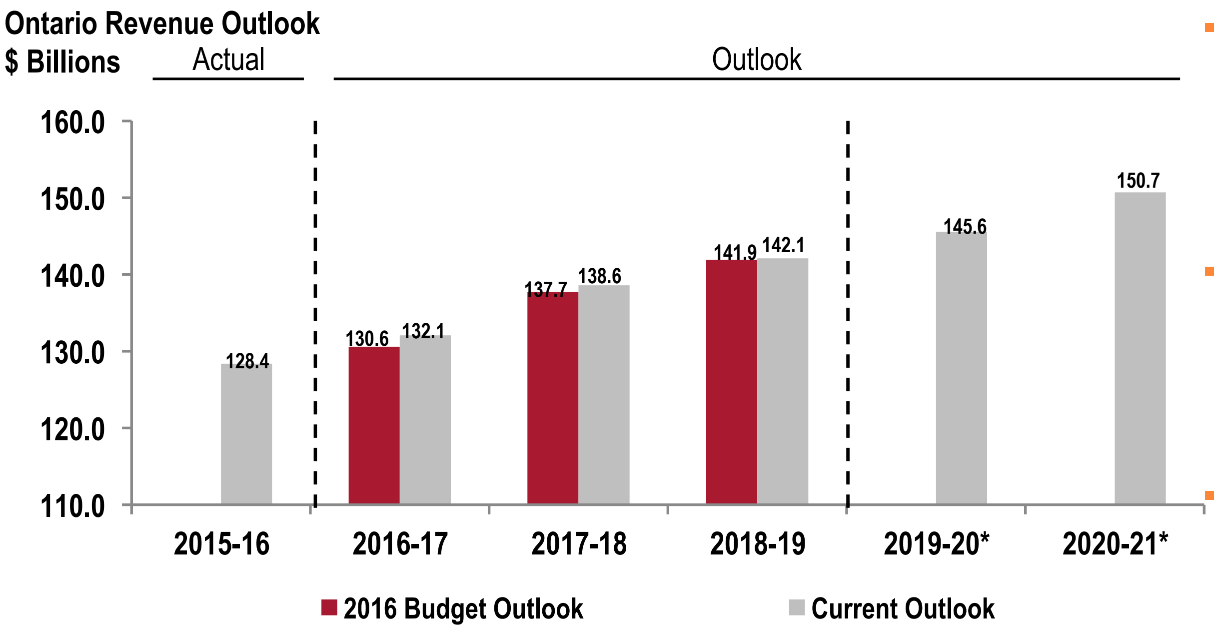
Upside Potential

- Low interest rate environment continues longer than expected, supporting domestic spending and investment
- Strong housing market continues
- Stronger-than-expected demand for Ontario exports in the US and overseas
- Greater-than-expected boost to households and businesses from sustained low oil prices

Downside Risks

- Global economic uncertainty and volatility in financial markets
- Rise in US and global trade protectionism
- Intensification of global competition – Mexico, China
- Sharp housing market downturn

Revenue Outlook

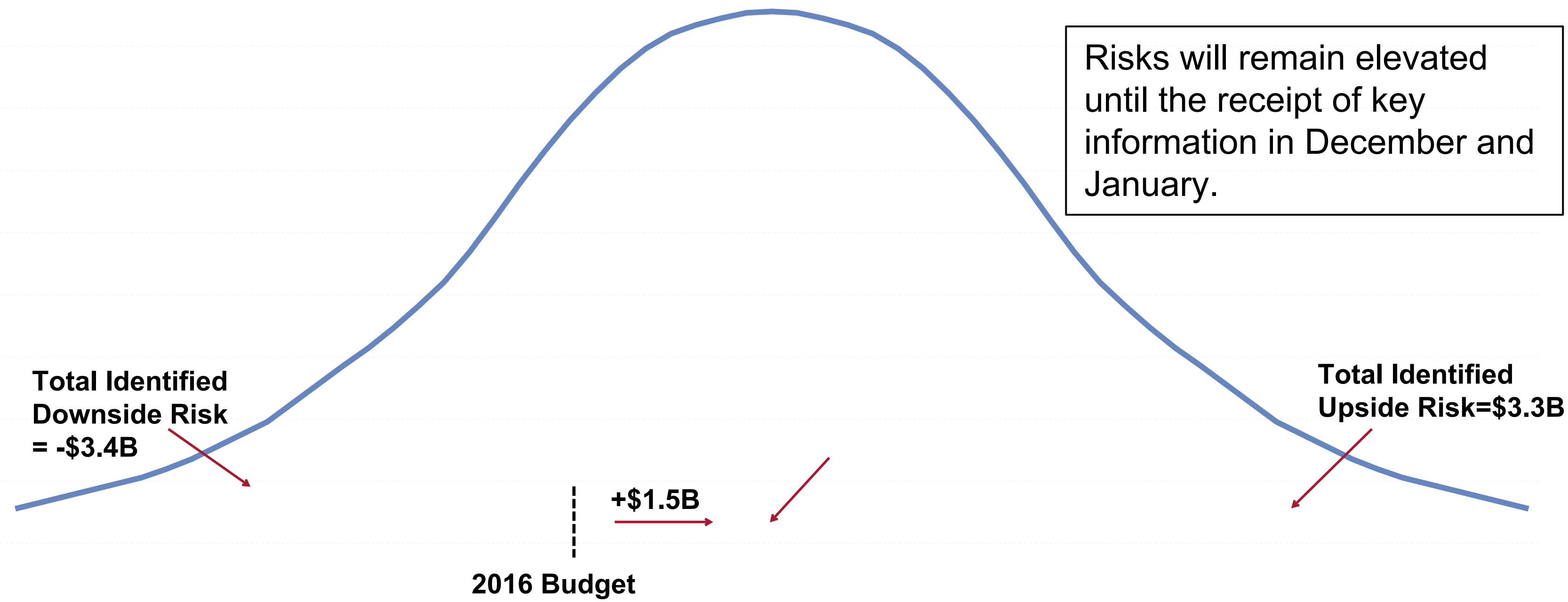


* Revenue projections for 2019-20 and 2020-21 do not assume new unconditional federal transfers of $1.3 billion per year that were built into the medium-term fiscal plan as part of the 2016 Budget.

- The **revenue outlook has improved** since the 2016 Budget mainly due to:
  - Higher 2015 personal income tax assessments.
  - A moderate improvement in the economic growth outlook.
- These improvements are partially offset by:
  - A lower Equalization payment outlook starting in 2017-18.
  - Updated information and assumptions on federal infrastructure funding.
- There is an unusually broad range of risk (+/- $3.4B) around the revenue forecast that will persist until late in the fiscal year.
  - Risks are evenly balanced around the current outlook.

Revenue Changes Since the 2016 Budget $ Billions	2016-17	2017-18	2018-19
June Economic Outlook & Revenue Information	0.6	0.6	0.6
August Update to PIT/OHP Assessments	0.9	1.0	1.1
Equalization Update	-	(0.6)	(0.9)
Canada Health and Social Transfers	0.0	0.1	0.1
Federal Funding – In-year Approvals	0.5	0.8	0.1
Federal Infrastructure Funding Assumption	(0.5)	(1.0)	(1.0)
Total Revenue Changes Since 2016 Budget	**1.5**	**0.9**	**0.2**

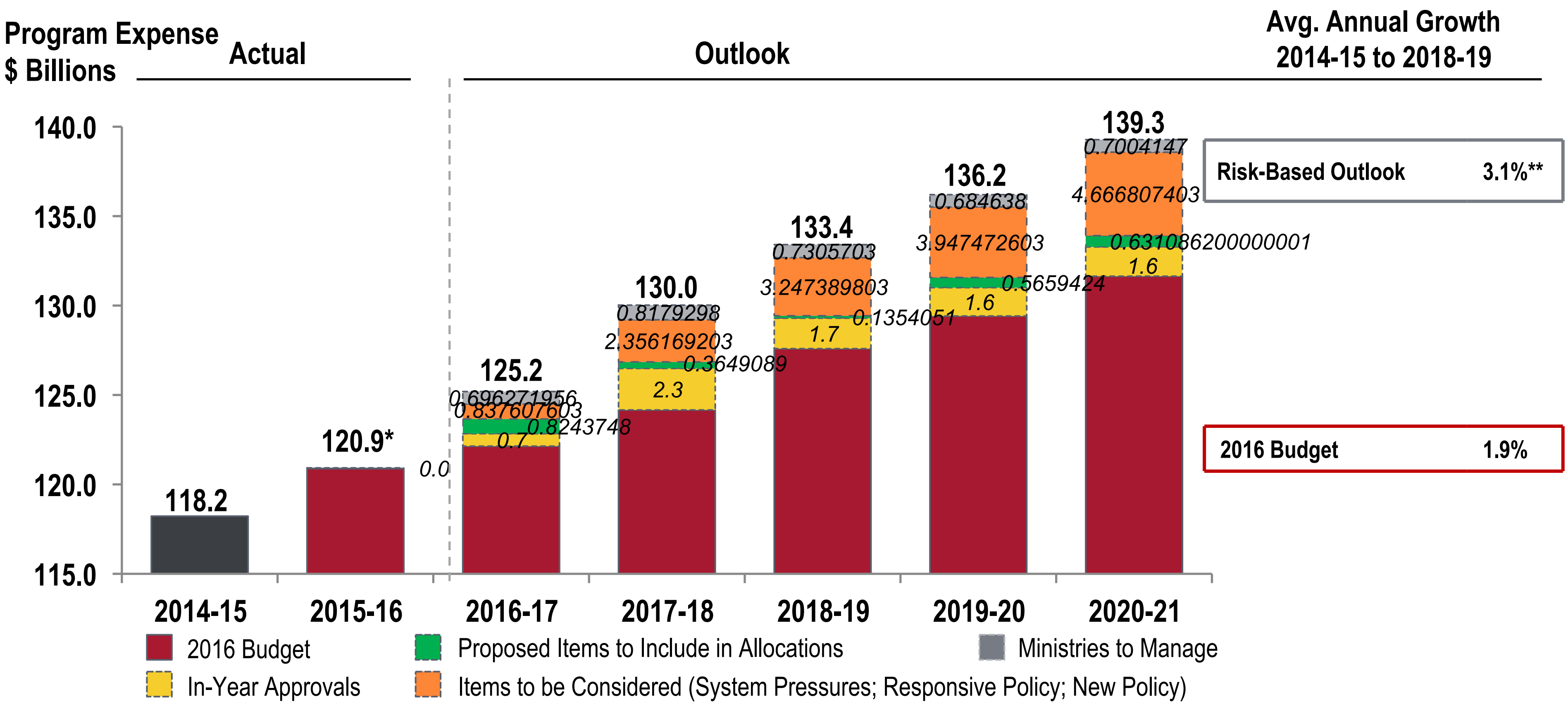
Broad Range of Risks Around 2016-17 Revenue Forecast



Risk Source	Downside Risk (Low)	Current Outlook	Upside Risk (High)
Economic Growth	-$0.4B : One half percentage point lower	+$0.6B: Improved since 2016 Budget	+0.4B: One half percentage point higher
PIT assessments	-$0.6B: Lower assessments	+$0.9B: Full 2015-16 Public Accounts increase carried forward	+$1.0B: Higher assessments
PIT tax planning	-$1.4B: Maximum tax planning estimate	None of PIT increase attributed tax planning	
CIT and HST estimates	-$0.2B: Lower estimate	No change from 2016 Budget	$1.5B: Higher estimate
Cap and Trade	-$0.4B: Only realize about 25% of Cap and Trade proceeds	No change from 2016 Budget	
Federal funding	-$0.2B: No new funding for home care and training	Infrastructure funding as per new commitments	
Government Business Enterprises	-$0.2B: Mainly lower OPG	No change from 2016 Budget	+$0.4B: Higher OLG and LCBO

Program Expense Outlook

- Based on in-year TB/MBC approvals to date, and a current assessment of risks and potential unfunded initiatives, the program expense outlook is projected to **grow at an average annual rate of 3.1%** between 2014-15 and 2018-19, compared to projected growth of 1.9% assumed in the 2016 Budget.
- This outlook assumes that Year-End Savings target of $0.8 billion in 2016-17 and $1.0 billion in the out-years is met, and funding is allocated for no more than net 1.4 per cent bargaining settlements in upcoming round of collective bargaining. It also does not yet incorporate a Document initiatives envelope.



*Preliminary actual results, pending final confirmation.
** Risk-based outlook if "ministries to manage" risks are managed = 2.9%

Examples of Expense Categories

In-Year Approvals

- First Nations Health Action Plan
- Autism Reform
- Child Welfare Reform
- School Renewal Funding
- Ontario's Action Plan for Reconciliation
- Revision to Drug Strategy
- Clean Water and Wastewater Fund (federal portion)
- Changes to Drive Clean program
- Electricity Price Mitigation

Proposed Items to Include in Allocations

✓ Partial funding for Social Assistance forecast pressures

✓ Education Remedy: roll-over and ongoing targeted sector investments

✓ Anti-Racism Directorate

✓ First Nations Hydro One Ownership

✓ Funding for First Nations Policing – wage parity / infrastructure investments

Items to be Considered

System Pressures:

- Service enhancements in hospitals, long-term care, primary care, cancer care and new drugs
- Social Assistance rate increases
- Remaining Social Assistance forecast pressures
- Transition of young adults with complex special needs
- Reversal of some Business Support targets

Responsive Policy:

- Additional School Renewal Funding (2018-19 onwards)
- Segregation/Corrections Transformation
- Response to Ombudsman's Developmental Services report

New Policy:

- Child Care Expansion
- Renewed Auto Sector Strategy
- Ontario's Business Growth Initiative Update

Ministries to Manage

× Additional pressures in MOHLTC

× Relief from School Board Efficiency & Modernization Targets

× Agriculture Business Risk Management

× Renewed Social Enterprise Strategy

Illustration: Potential Range of Fiscal Trajectories

$ Billions	2016-17	2017-18	2018-19	2019-20	2020-21
2016 Budget Surplus/(Deficit) Targets	**(4.3)**	**0.0**	**0.0**	**n/a**	**n/a**
Potential Outlook Changes					
Current Revenue Update	**1.5**	**0.9**	**0.2**		
Potential Program Expense Changes					
In-Year Approvals	0.7	2.3	1.7		
Proposed Items to Include in Allocations	0.8	0.4	0.1		
Items to be Considered					
System Pressures	0.6	1.5	2.1		
Responsive Policy	0.0	0.1	0.2		
New Policy	0.3	0.7	0.9		
Total Program Expense Changes	**2.4**	**5.0**	**5.1**		
Current Interest on Debt Savings	**(0.2)**	**(0.4)**	**(0.3)**		
Total Potential Outlook Changes	**(0.7)**	**(3.8)**	**(4.6)**		
Resulting Surplus/(Deficit)	**(5.0)**	**(3.8)**	**(4.6)**	**(4.2)**	**(2.6)**
Fiscal Gap Against 2016 Budget Targets	**(0.7)**	**(3.8)**	**(4.6)**	**tbd**	**tbd**
Other Potential Changes Being Tracked					
Ministries to Manage	0.7	0.8	0.7		
Resulting Surplus/(Deficit)	**(5.7)**	**(4.6)**	**(5.3)**	**(4.8)**	**(3.3)**
Fiscal Gap Against 2016 Budget Targets	**(1.4)**	**(4.6)**	**(5.3)**	**tbd**	**tbd**

Revenue

- ✓ Increased revenue from improved economic forecast, tax assessment information, and in-year approvals related to other federal funding.
- ✓ Assumes no changes to cap and trade proceeds and asset optimization.
- ✓ Assumes unconditional federal infrastructure revenue is not received.

Expense

- ✓ Increased program expense resulting from in-year approvals to date, proposed items to include in allocations and items to be considered (system pressures, responsive policy and new policy).
- ✓ IOD savings from lower-than-forecast interest rates.

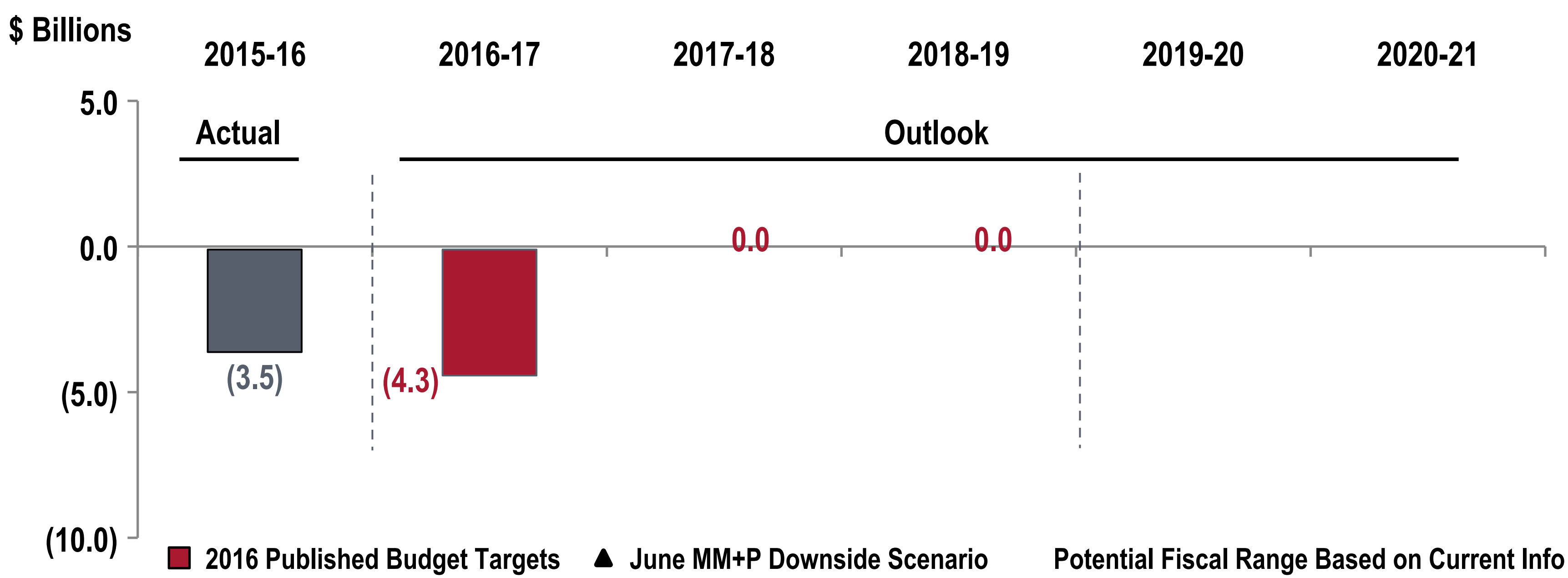
Expense

- ✓ Further program expense increase from risks to be managed by ministries.

- ✓ Assumes reserve is maintained and uncommitted contingency funds are available.

Illustration: Range of Fiscal Trajectories

- Current information suggests that choices will need to be made and action taken in order to hit or exceed the 2016-17 deficit target of $4.3 billion, or show progress beyond the potential 2015-16 actual results.
- Beyond the current fiscal year, current information suggests that action will be required to close the gap to meet the government's commitment to balance the budget in 2017-18 and beyond. This potential gap has increased compared to the gap outlined in June, mainly as a result of unfunded items to be considered.
- This range of potential fiscal trajectories does not take into account Document initiatives; risks from not meeting year-end savings targets or existing pressures that ministries are already managing; information still to come throughout the year; other policy initiatives currently under consideration; and any potential actions to close the gap. Assumes reserve is maintained and uncommitted contingency funds are available.



Net Debt-to-GDP		2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Updated Outlook		39.4%	39.5%	38.8%	38.4%	n/a	n/a
Potential Range		39.4%	39.6%	39.5%	39.8%	40.0%	39.7%
		39.4%	39.7%	39.7%	40.0%	40.3%	40.1%

Information Still to Come

The **range of potential fiscal trajectories is preliminary**. There is still important information yet to be received and decisions that could potentially significantly impact the government's fiscal strategy:

Revenue	Expense
✓ Economic updates, including Provincial Economic Accounts (November 9th) ✓ Estimated proceeds for cap-and-trade ✓ Ongoing federal-Provincial negotiations related to federal transfers (e.g. home care) ✓ Progress on the government's asset optimization strategy ✓ Key revenue information in December and January, including federal HST update, and Equalization entitlements, and finalization of PIT and CT assessments. ✓ Monthly updates to personal and corporate income tax and income from Government Business Enterprises	✓ In-year TB/MBC expense approvals ✓ Ability to meet year-end savings targets ✓ Decisions related to new initiatives under consideration ✓ Upcoming PRRT plans ✓ Decisions related to upcoming PRRT items that may be deferred to the 2017 Document process, including: ▪ 2017 Document initiatives ▪ Alignment of climate change investments with available proceeds ✓ Updates on compensation negotiations and alignment with set asides (i.e. do outcomes come within or surpass net 1.4% target mandate?) ✓ Interest on debt forecast updates

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

Fiscal Objectives Moving Forward

- Given the final results for 2015-16, and the current assessment of the fiscal outlook, the **government will need to consider its overall fiscal objectives and take action to ensure their achievement.**

- What will be the **government's fiscal anchors moving forward**?

    - Lower the **2016-17 deficit target** to align with 2015-16 actual results?

    - Ensure **balance is achievable in 2017-18**?

    - **Maintain balance or plan for surpluses** for longer-term targets (i.e. 2018-19 for FES, and 2019-20 for 2017 Document)?

    - Show progress on **debt sustainability**?

- Key fiscal strategies remain ensuring the integrity of **Provincial revenues** and the ongoing work through **Program Review, Renewal and Transformation (PRRT).**

- However, as funding for **new initiatives or pressures** is considered, **additional actions** will need to be initiated in order to meet overall fiscal objectives – beginning already in 2016-17.

Fiscal Architecture Choices and Considerations

The government has the opportunity to help ensure the achievement of both new initiatives and fiscal objectives, by taking action now to determine what initiatives to prioritize in the fiscal plan and consider available choices/trade-offs.

Potential Fiscal Gap from 2016-17 Deficit Target and Sustained Balanced Budgets					
($ Billions)	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**
Potential Fiscal Gap	(0.7)	(3.8)	(4.6)	(4.2)	(2.6)

Potential Tools To Help Close the Gap

- Tools are scalable and can involve altering existing plans or introducing new measures and can be employed at different times depending on the need for immediate or longer-term relief:
  - As the greatest pressures stem from unfunded items to be considered since the 2016 Budget, consider ***scaling back, delaying, or otherwise reducing*** the fiscal impact of these items.
  - Adjusting fiscal plan provisions like the ***size of the contingency fund or reserve*** (reserve $1.0B/$1.1B/$1.2B, contingency fund of $0.6B in 2017-18 and onwards) may provide marginal flexibility.
  - Given pressures in key sectors (health, social services), may be limited opportunity to significantly further restrain the expense outlook, but could ***consider new boulders*** to help manage growth over the longer-term or consider ***additional savings targets*** in the near-term.
  - ***Revenue measures*** such as re-profiling the existing asset optimization plan and considering measures to increase tax revenue.
  - ***Robust engagement with the federal government*** to secure written agreements that would provide additional funding in areas such as health care and labour market transfers, while seeking ways to protect declines in other transfers (e.g. Equalization floor protection).
- May need to explore additional new, robust tools to ensure fiscal sustainability over longer-term.

Public Updates and Communication of the Fiscal Plan

- The government has opportunities, as well as continuous disclosure obligations, to update the fiscal plan and narrative leading up to the 2017 Budget.
- The Fall Economic Statement and the Budget are ideal opportunities for substantial changes. Other fiscal updates provide an opportunity for the fiscal narrative to gradually evolve throughout the fiscal year.
- **Credit rating agencies** will require a transparent account of all changes to the fiscal plan – for example, changes associated with new spending announcements and federal-provincial agreements.
- Also, the **Financial Accountability Office** will likely publish an assessment of Ontario's medium-term economic and fiscal outlook leading up to the Fall Economic Statement and after the Budget is released.

2015-16 Public Accounts

✓ Final audited results for 2015-16

✓ Could foreshadow fiscal updates for upcoming FES, including fiscal trajectory

2016 Fall Economic Statement

✓ Requires a mid-year review and update of the fiscal plan that reflects TB decisions and public commitments on investments

✓ Opportunity to revise fiscal targets, smooth out fiscal trajectory (2015-16 to balance), and communicate debt narrative

Long Term Report

✓ Requires a long-range assessment of the economic and fiscal environment

✓ Committed to releasing before the end of 2016-17.

✓ Opportunity to communicate fiscal sustainability and address debt concerns

2016-17 Third Quarter Finances

✓ Requires detailed update on revenue and expense for 2016-17

✓ Opportunity to reaffirm fiscal narrative or foreshadow any changes for upcoming Budget

2017 Document

✓ Requires a medium-term fiscal plan (2017-18 to 2019-20)

✓ Opportunity to publish the balanced-budget Budget and take credit for the plan to eliminate the deficit

✓ Could pivot fiscal narrative to focus on fiscal sustainability rather than targets

Next Steps

- ***In light of the current fiscal outlook:***
  - *Determine fiscal objectives, priorities and anchors to set fiscal architecture.*
  - *Develop options and actions necessary to achieve objectives.*
  - *Monitor and assess expense and revenue information, as well as potential risks and new initiatives – to ensure informed decision-making over the planning period.*

Key deliverables over the coming weeks:

- ➢ Update Cabinet on Public Accounts and out-year fiscal outlook (Sept)
- ➢ Develop and issue ministries' preliminary allocations (Sept)
- ➢ Develop FES fiscal strategy, to update the public on 2016-17 to 2018-19 (Sept/Oct)