2017 Document: Fiscal Plan Context

Office *of the* Budget
MINISTRY *of* FINANCE

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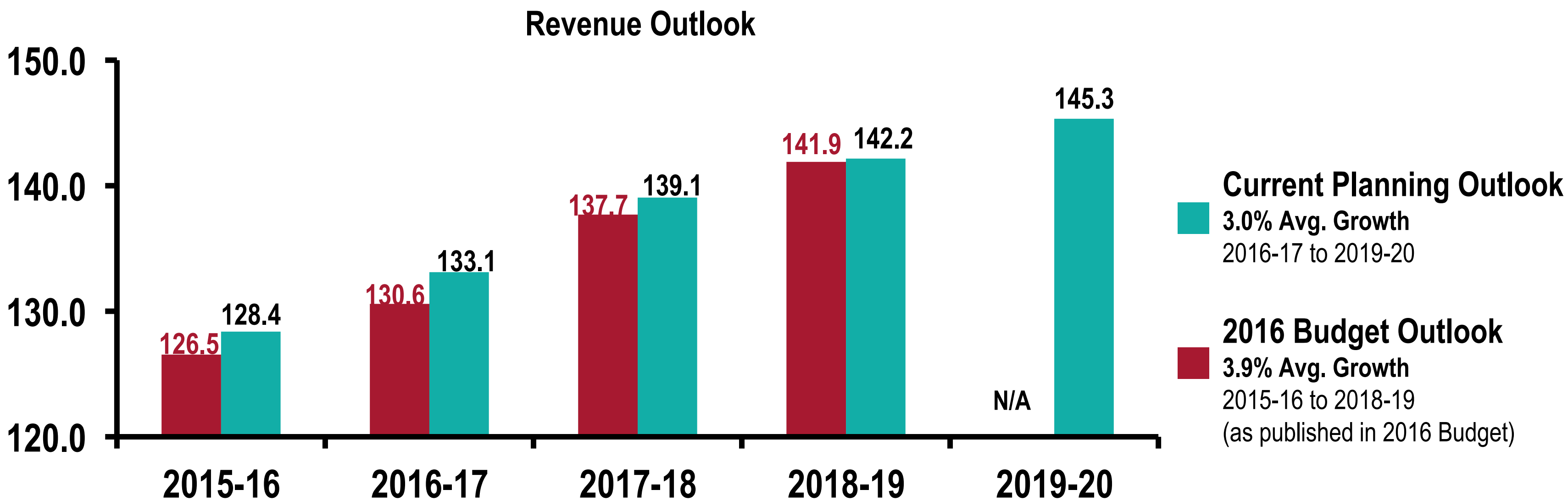
Purpose

- Review the **current fiscal challenge** in light of the government's **fiscal anchors**.
- Outline the **potential tools** that could support key investments and achievement of the government's fiscal objectives.

Evolution of the Fiscal Plan and Current Challenge

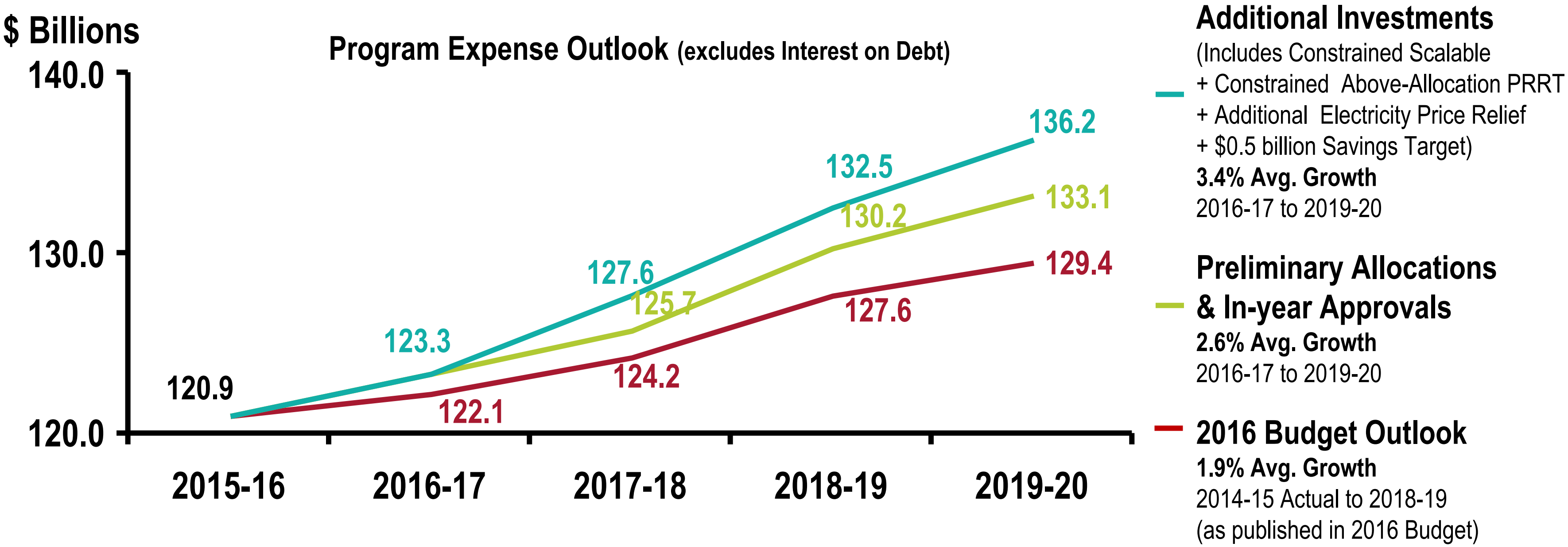
Fiscal Context – Revenue Growth – 2016 Budget to Current



Key Revenue Changes since the 2016 Budget

- Higher than forecasted taxation revenue, partially offset by:
  - Lower projected equalization.
  - Lower Cap and Trade proceeds projection of $0.1 billion in 2017-18, rising to $0.5 billion in 2019-20.
  - IFRS accounting impact from the consolidation of OPG and Hydro One of $0.4 billion in 2017-18, rising to $0.7 billion by 2019-20.
- Re-profiling the sale of the final tranche of Hydro One from 2018-19 to 2017-18, resulting in a $0.2 billion increase in 2017-18, and a $0.3 billion deterioration in 2018-19.

Fiscal Context – Expense Growth – 2016 Budget to Current



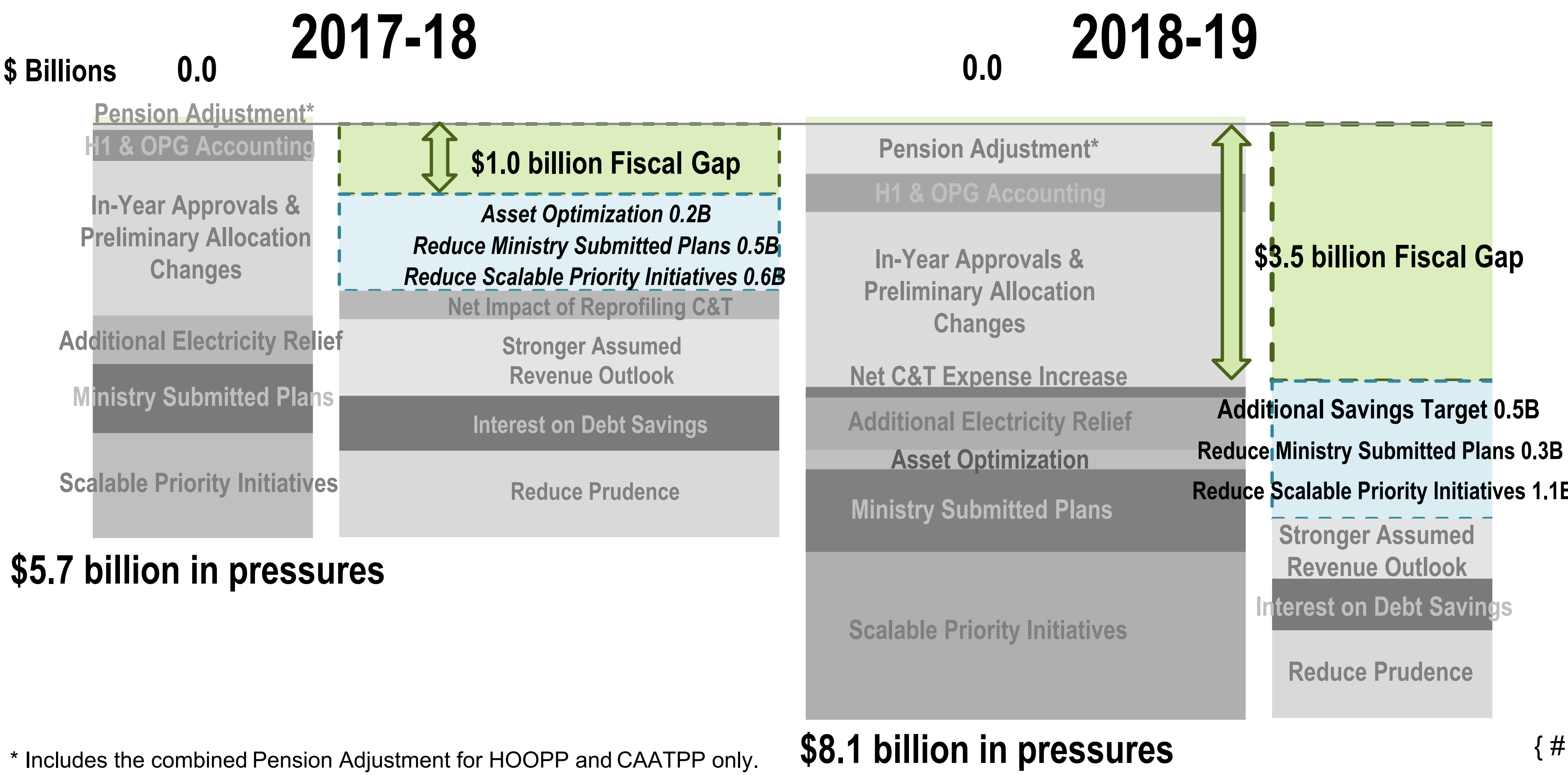
	2015-16	2016-17	2017-18	2018-19	2019-20
Interest on Debt	11.0	11.3	11.7	12.4	12.6
Reserve	-	0.4	0.7	0.8	1.0

Key Drivers of Expense Growth since the 2016 Budget

- Preliminary allocations and new expense approvals, including the 8% Electricity Cost Relief, growing to $2.7 billion by 2019-20.
- Remaining Pension Adjustment (HOOPP and CAATPP only) growing to $0.8 billion by 2019-20.
- Above allocation requests and scalable priority initiatives of $2.8 billion by 2019-20.
- Potential additional Electricity Cost Relief of $0.8 billion by 2019-20.
- Assumes additional Savings Targets of $0.5 billion in 2018-19 and 2019-20.

The Fiscal Challenge

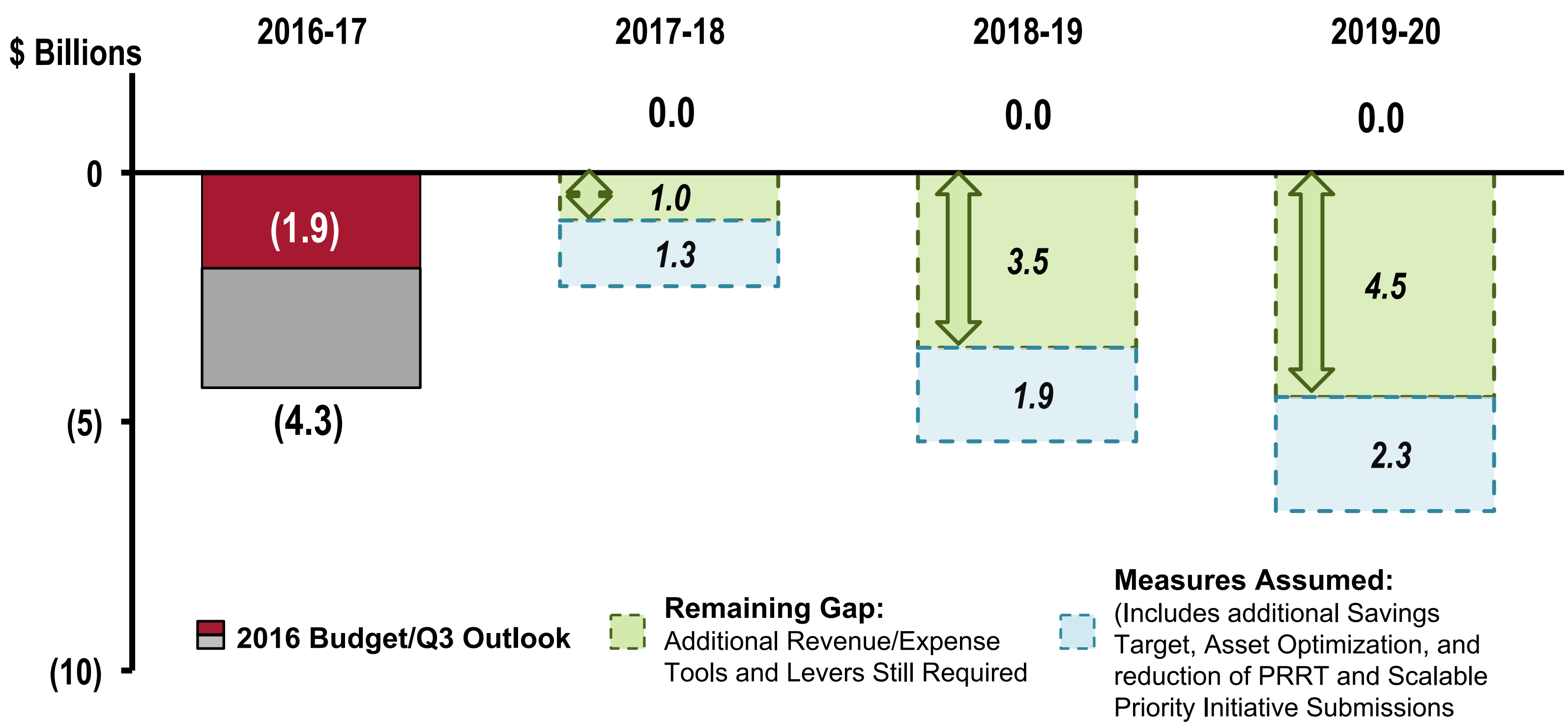
- The 2016 Budget outlined a plan to balance the budget in 2017-18 and remain balanced in 2018-19, however **changes since the Budget have created a gap compared to the government's fiscal targets.**
- In order to accommodate fiscal pressures in 2017-18 and 2018-19, a number of tools have been taken on.



* Includes the combined Pension Adjustment for HOOPP and CAATPP only.

Assessing and Addressing the Fiscal Challenge

- Without additional effort, the fiscal gap is **$1.0 billion in 2017-18, $3.5 billion in 2018-19, and $4.5 billion in 2019-20**.
- Continuing to assume fiscal anchors of **balanced budgets** over the forecast horizon **will require identifying additional revenue or expense tools/levers** to address the fiscal challenge.



Other Factors That Could Further Impact the Gap

Revenue

- Revisions to economic outlook
- Potential revisions to cap-and-trade proceeds based on auction results in 2017.
- Adjustments to the government's asset optimization strategy
- Remaining 2015 CIT & PIT tax assessment information and ongoing tax receipts from provincially administered taxes
- PRRT updates (revised revenue outlooks from ministries, agencies and government business enterprises)
- Implications of Federal Budget

Expense

- 2017 Document initiatives
- Labour settlements
- Interest on debt forecast updates
- Alignment of climate change investments with available proceeds
- Impact of expense pressures that ministries have been asked to manage

Accounting risks:

- Treatment of Pension Assets (plus any valuation impacts)
- Further updates to accounting Framework for OPG and Hydro One (IFRS)

Prudence

- Build the reserve back up to mitigate adverse impacts to the fiscal plan
- Resetting the contingency funds to accommodate expense risks and pressures

- Potential improvement to gap
- Potential improvement or deterioration to gap
- Potential deterioration to gap

Approaches to Closing the Gap

Potential Tools to Achieve Fiscal Targets

Achieving balance while making new investments will require significant spending constraint or revenue generation, particularly in 2018-19 and 2019-20. Some potential revenue and expense tools include:

Revenue

- Several revenue tools could be considered to close the fiscal gap, including:
  - Targeted **tax changes** (e.g.: Tobacco, Alcohol, Insurance Premium, Education Property)
  - **Non-tax revenue**
  - Strategy on **revenue integrity**
- Engagement with the **federal government** to maximize federal funding, including:
  - **Equalization protection**
  - Funding for **climate change initiatives**
  - **Sharing** of **tax revenue**

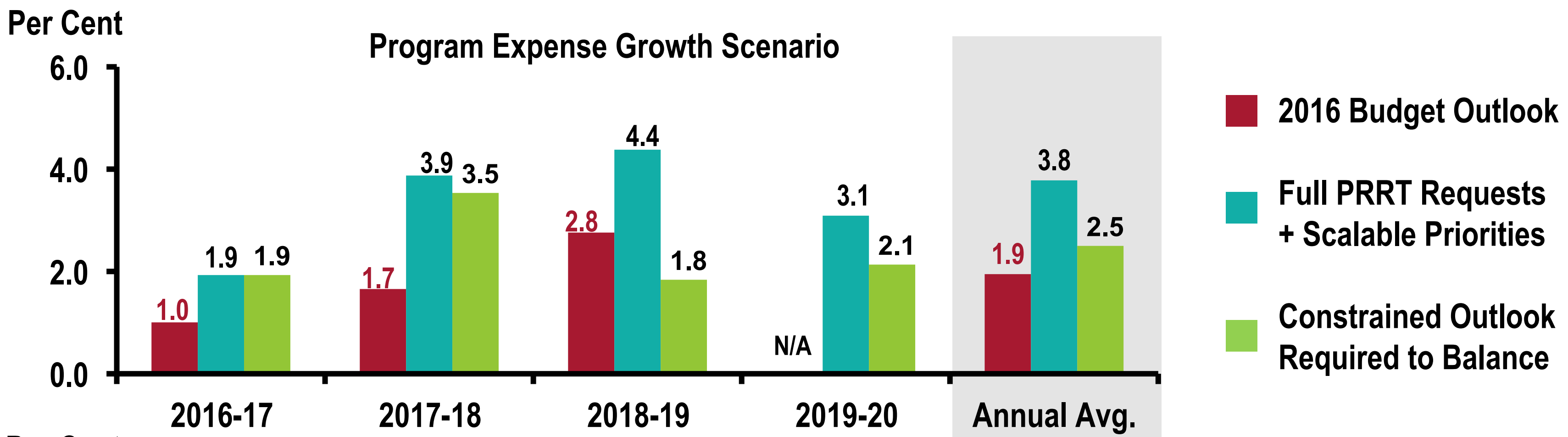
Expense

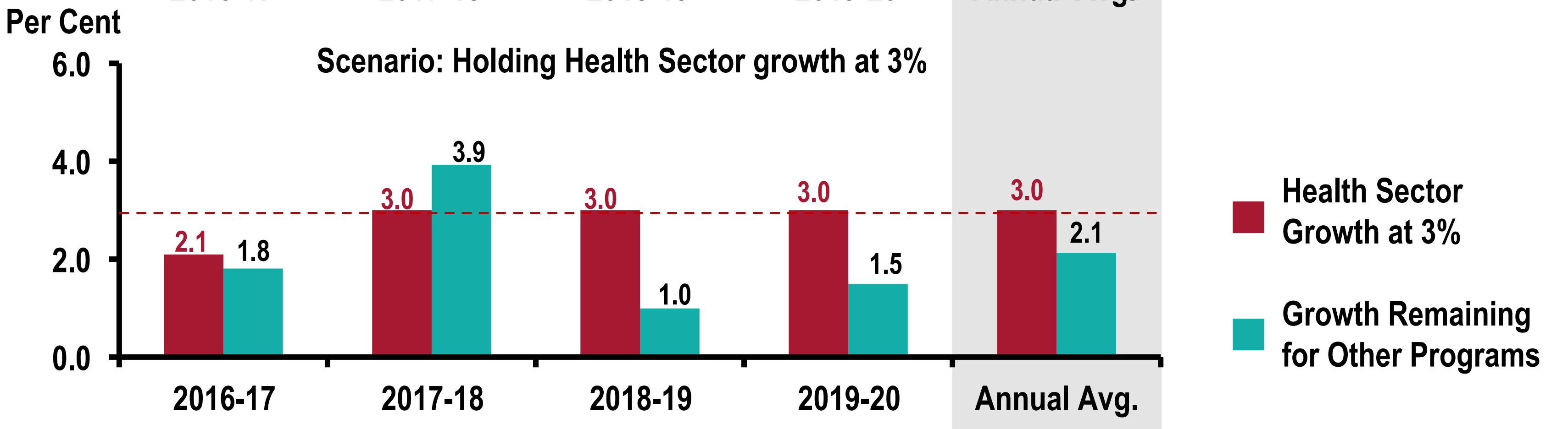
- A **systematic program review process** with the goal of identifying savings that would materialize beginning in 2018-19.
  - **Savings targets for ministries** taking into account the overall allocation, current mandate commitments, and non-discretionary pressures.
  - **Costing reviews** where services are offered by multiple ministries **to identify the most effective mode of delivery.**

Illustrative Impact of Tools on Program Expense

Assuming PRRT Requests and Scalable Priorities are fully funded, program expense would grow at an average annual rate of 3.8 per cent from 2016-17 to 2019-20, significantly higher than the 1.9 per cent projected in the 2016 Budget outlook.

- Assuming balance is achieved using only $1 billion in revenue tools, program expense growth would need to be held to an average annual rate of 2.5 per cent.
  - If Health sector growth is maintained at 3.0 per cent annually starting in 2017-18, growth in all other programs would need to be constrained to an average rate of 2.1 per cent.





Key Takeaways

- The **2017 Document** approach will need to **reconcile** the commitment to **balance** with the desire to make **investments in priority areas**
- **Achieving fiscal objectives** while investing in new priorities will **require** the consideration of all **viable revenue and expense tools**
  - Success of a **Program Review** exercise will require the buy-in and **commitment of** all **Cabinet** members to constrain program spending
- Regardless of tools taken on, **not all priorities can be funded** as part of the **2017 Document** – this will require **choices and trade-offs** about what to **fund now** and what can be considered as part of the 2018 Document.

Appendix

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.