MMP: 2016 Fall Economic Statement Fiscal Outlook

Draft – October 22, 2016 10:00AM

Key Messages:

Context and Proposed FES Objectives (Slide 2)

- Premier, as you know, the FES provides a **mid-year update** on the economic and fiscal outlook.

- While that is usually a fairly straightforward task, **this year is unique** for a few reasons:

    - Recent indicators suggest a **less optimistic outlook for Ontario's economic growth** than a month ago when we met to talk about the fiscal outlook;

    - We announced new commitments with significant associated spending in our recent **Speech from the Throne**; and

    - The **change in pension asset accounting** taken on as part of the 2015-16 Public Accounts could have substantial out-year implications.

- Typically, we **use the FES to set the stage for the upcoming Budget**. This will be even more important this year as we attempt to address these recent developments, while still giving ourselves flexibility to revisit our fiscal plan and narrative over the next few months.

- Before going through the specific options for the FES outlook, we want to **ensure we're aligned about what <u>fiscal objectives</u> we want to accomplish with the FES**.

- At its core, the FES **should demonstrate that we're on track to achieve balance**, while still being able to:

  - Make investments that will help Ontarians in their everyday lives; and

  - Accommodate the unforeseen change in pension asset accounting.

- We'll need to accompany this with a **strong fiscal narrative that clearly links priority investments** like electricity cost relief and creating child care spaces **to the strides we've made putting our fiscal house in order**.

- We do not want to make this fiscal update just about the accounting change, or suggest that our plan to balance rests solely on any specific conclusion from the independent panel reviewing the pension asset accounting issue.

- We need to **demonstrate that we can balance regardless of the advice of the panel**.

- In terms of the pension asset accounting risk, we need to **adopt a fair and defensible approach** to how we reflect this risk in the fiscal outlook over the medium-term.

  - Key financial stakeholders will be expecting us to address the issue in the FES, given the recent developments with the Public Accounts.

    - What that “fair and defensible” approach is, however, is a point of discussion for us here today.

- We’ll also need to be careful in how we position the fiscal update and narrative – to **ensure that we leave ourselves flexibility leading up to the 2017 Budget**.

- To be clear, **the medium-term fiscal outlook that will be presented in the FES will not include**:

    - The **impact of preliminary allocations** that have been released to ministries that would add an additional $1.7 billion in 2017-18 growing to $1.8 billion in 2018-19, and

    - Any **additional investments** the government may choose **to announce in the 2017 Budget**.

    - While it is **common practice to not include these components in the FES**, what will be particularly challenging as we start planning for the Budget is that **these components will present a great deal of additional pressure on the fiscal plan**.

    - As well, **if we are committed to balance, it means that there leaves less fiscal room** should for example, economic factors negatively impact revenues or that the advice from the panel on the accounting of the pension asset is not in our favour.

- This demonstrates that the fiscal challenge ahead means that we cannot delay in planning for the 2017 Budget.

- **We'll need consider all of our options** – revisit palatable tools to address risks in the existing plan, and potentially delay balancing.

- These discussions will surely need to be in the context of supporting our brand, and **highlighting the fact that we are prioritizing investments** that will help grow the economy, create jobs, and protect the programs and services that Ontarians rely on.