Fiscal Architecture

Office of the Budget
MINISTRY of FINANCE

TBS

OFFICE OF ECONOMIC POLICY
OEP
MINISTRY OF FINANCE

Cabinet Retreat, March 10, 2017

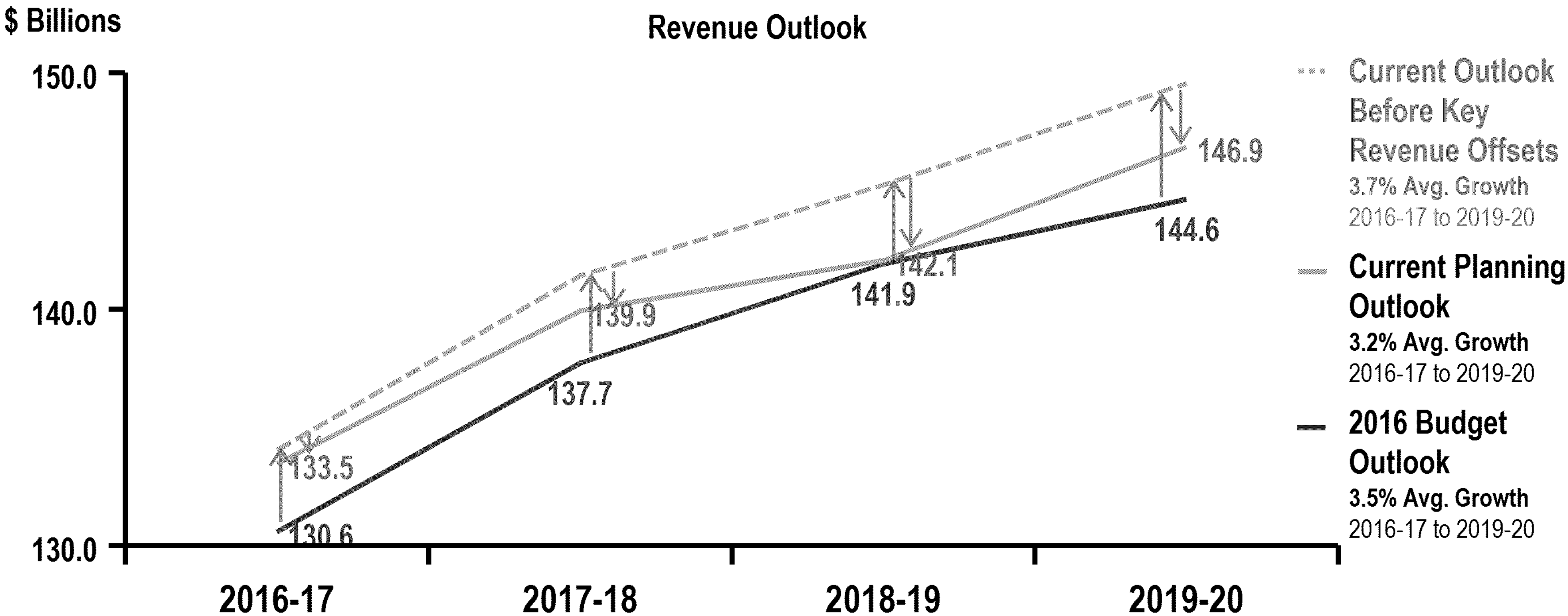
March 8, 2017 10:30 PM

Purpose

- Provide an update on the Province's **fiscal outlook** in light of recent information and government decisions.
- Outline the core building blocks of the upcoming Document's **fiscal architecture** for fiscal years 2017-18 to 2019-20.
- Discuss the approach to the **range of tools** required in order to balance the achievement of the government's fiscal objectives with priority investments.

Current Fiscal Outlook

Fiscal Context – Evolution of Revenue Since 2016 Budget



Revenue Changes since the 2016 Budget

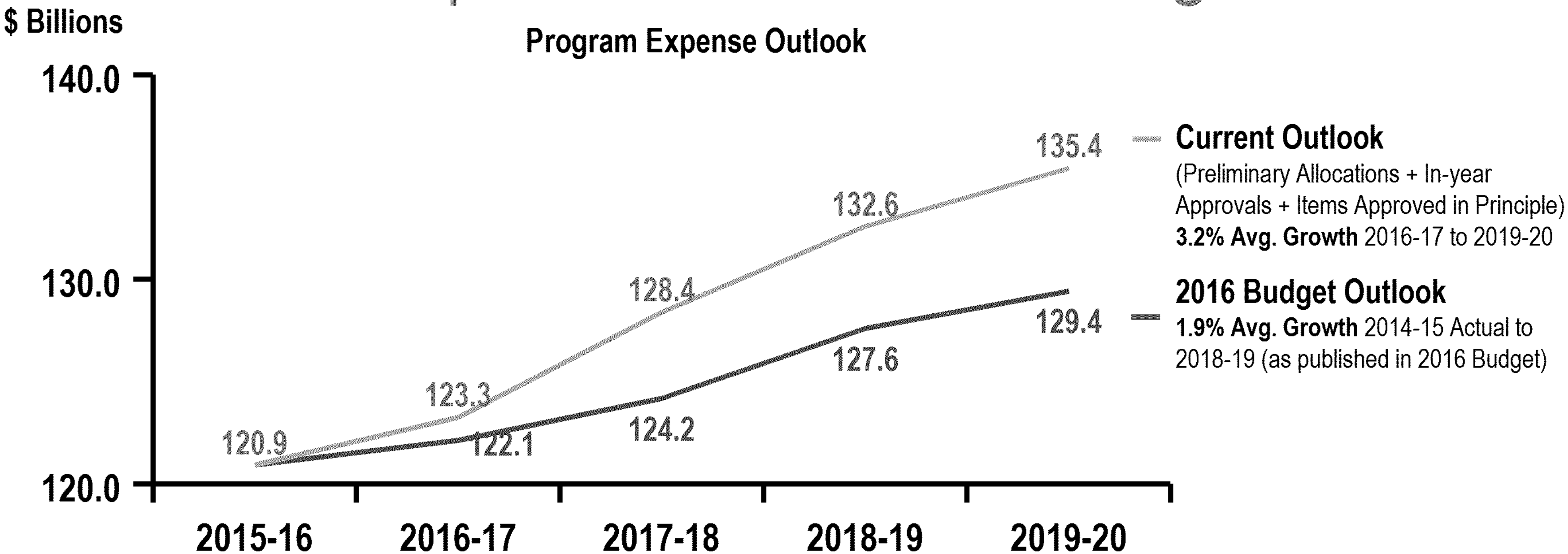
Key Increases Since Budget

- Taxation revenues (mainly PIT, CIT, Sales Tax, LTT)
- Public Transit Infrastructure Fund (PTIF)

Key Offsets Since Budget

- Equalization entitlements
- Asset Optimization
- Cap and Trade Proceeds
- IFRS related consolidation adjustments (H1/OPG)

Fiscal Context – Expense Growth – 2016 Budget to Current



$ Billions	2017-18	2018-19	2019-20
2016 Budget Interest on Debt	**12.5**	**13.1**	**13.3**
Changes	*(0.9)*	*(1.0)*	*(1.0)*
Current Interest on Debt	**11.6**	**12.1**	**12.3**
2016 Budget Reserve	**1.0**	**1.1**	**1.2**
Changes	*(0.3)*	*(0.3)*	*(0.2)*
Current Reserve	**0.7**	**0.8**	**1.0**

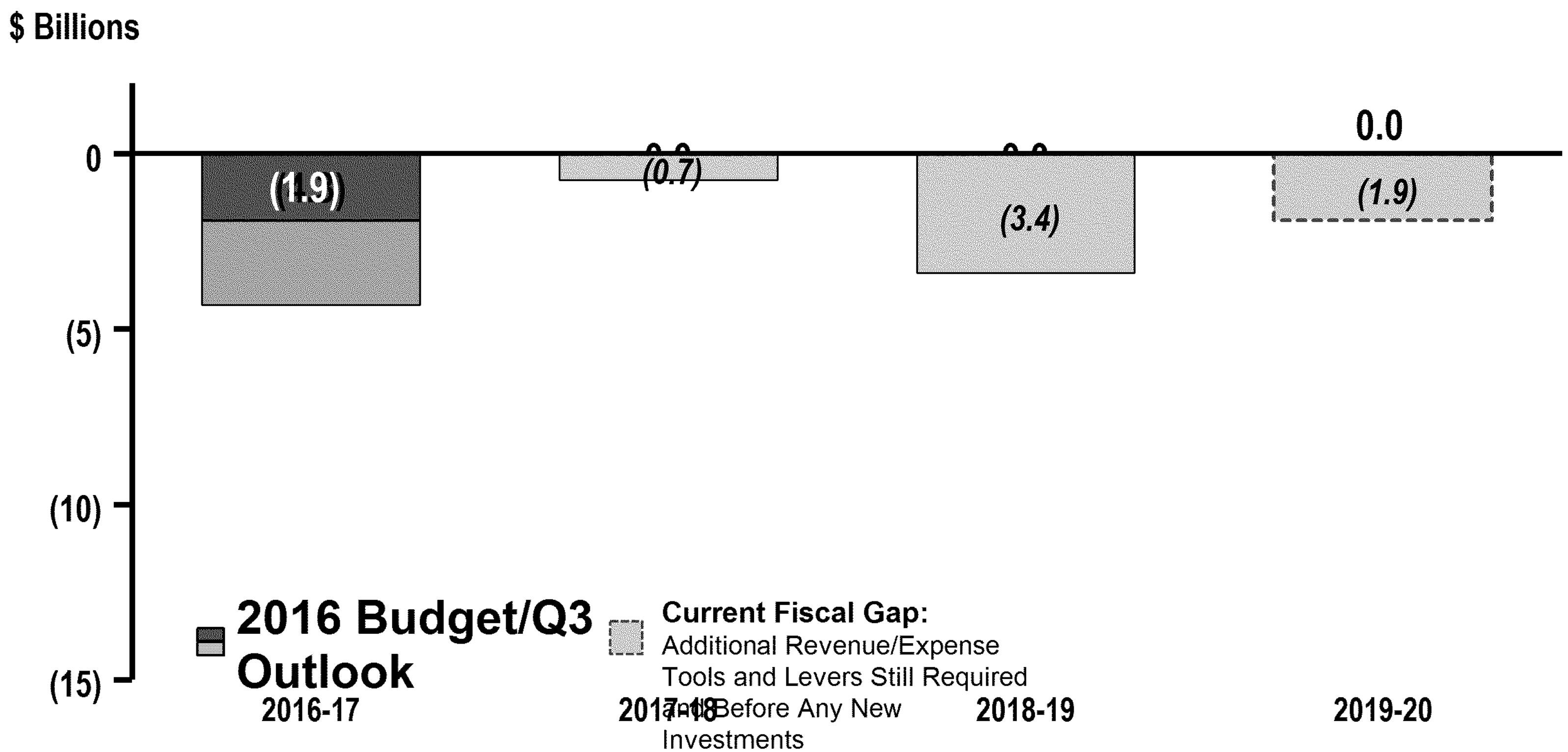
Key Drivers of Expense Growth since the 2016 Budget

Since the *2016 Budget,* program expense has increased by $6.0 billion by 2019-20 as a result of:

- Ministry PRRT allocations that reflect government approvals and expected growth and demand for programs , services – both capital and operating.
- Impact of all new investments approved since the 2016 Budget, including almost $1.8 billion in additional Electricity Cost Relief announced in the fall and on March 2.

The Emerging Fiscal Challenge

- The net impact of all revenue and expense changes since the 2016 Budget has created a gap of **$0.7 billion in 2017-18, $3.4 billion in 2018-19, and $1.9 billion in 2019-20 from ongoing balanced budgets**.
- This fiscal gap exists before any additional new investments – beyond those already approved – and any offsetting tools – are considered.



Confidential Advice to Cabinet

Balancing Fiscal Anchors and Investment Priorities

Framing the Balance of Choices for the 2017 Document

Build on Government's Plan, Demonstrate Progress, and Provide a Vision for Tomorrow

- Show progress on the government's plan to **invest in the economy and build Ontario up for everyone**.
- Demonstrate **responsible fiscal management**.
- Continue to **transform** and protect public services for longer term sustainability.

Confirm Recent Investments, Launch New Supporting Priority Investments

- Point to **2016 Budget investments**, as well as important **additional commitments** made in the 2016-17 year that demonstrate progress.
- Launch **select new priority investments** that create jobs and grow the economy of tomorrow.

Maintain Fiscal Credibility

- Continue to beat **deficit targets** and return the Province to **balanced budgets**.
- Moving forward, ensuring a **fiscally sustainable** and credible plan.

Reconciling and Balancing the Approach

- **Reconciling the government's fiscal anchors**, such as balancing the budget in 2017-18 and ongoing, **with the commitment to invest in priorities** will require **trade-offs**.
- This means the scope, size and roll-out of new priority investments **may require the consideration of all viable revenue tools and other measures** in the lead-up to the 2017 Document.
- Need to maintain a longer-term view to the **2018 Document, Pre-Election Report** and beyond.

Key Commitments Underway

Strengthening Healthcare & Investing in Education

Health investments: stem-cell treatments, mental health, shingles vaccinations, hospices, and the First Nations health action plan

Approximately 28 hospital projects valued at more than $10 billion

Repair and renewal projects benefiting more than 2,100 schools

Postsecondary Capital Projects and Major Capacity Expansion / Strategic Investment Fund: access to high-quality programs closer to home.

Building Inclusive Communities and Improving the Justice System

Social Services investments – in Autism, Child Welfare Reform, Affordable Housing, along with exempting child support payments from benefit calculations and initiatives to reduce human trafficking.

Truth and Reconciliation – actions co-developed and implemented with Indigenous partners

Justice System Reform investments – for immediate actions to improve conditions of confinement, reduce time to trial and improve community safety.

7 capital projects in the justice sector valued at more than $1.6 billion

Creating Opportunities

Going Global: expanding the province's presence in global markets

Project Momentum / Jobs and Prosperity Fund: support for Ontario's industry.

Ontario Youth Action Plan: Addressing youth violence and resilience through youth-led grassroots groups.

Building Transit and Transportation

19 capital projects in the transportation sector valued at more than $7.6 billion

Transportation investments: including increased GO rail and bus services, regional express rail, SmartTrack, municipal transit and highway expansion along with increasing the municipal share of Provincial gas tax.

Helping You and Your Family

Electricity Prices: lowered by an average of 25% for residential customers

OSAP reform: making average tuition free for students with financial need and improving affordability for middle-class families

Drive Clean: eliminating the $30 fee for vehicle emissions tests

UP Express: Reduced one-way fare from $19 to $9

* For capital projects, reflects projects expected to enter into service over the next 4 years

DOCUMENT 2017

Through our plan to balance the budget, support economic growth and invest in key public services, we will foster greater opportunity for more individuals and businesses; helping them get ahead and stay ahead. Ontario is committed to ensuring that everyone shares in the prosperity we are building together.

HELPING YOU AND YOUR FAMILY

With economic growth and a balanced budget, Ontario will continue to invest in the things that matter most to people: helping with the affordability of everyday costs; improving convenience, choice and consumer protection; and, providing high quality programs and services for families with children or aging parents.

- Everyday Costs (Electricity Relief, Auto Insurance System Reform, Consumer Protection, First Time Homebuyers Rebate)
- Children (Child Care, Full Day Kindergarten)
- Students (Tuition Changes)
- Seniors (Long-Term Care, New Elderly Persons' Centres, CPP enhancement)

CREATING OPPORTUNITIES AND SECURITY

INVESTING IN PEOPLE

Ontario is creating opportunities for people by investing in the development of their talents and skills. The government is helping more people participate in today's workforce and be prepared for success in tomorrow's economy.

- Highly Skilled Workforce
- Black Youth Action Plan
- Employment Strategy for People with Disabilities
- Helping Newcomers Integrate
- Second Career
- Adult Education
- Youth Jobs Strategy
- Skills Development
- Women in Business

INVESTING IN JOBS

Ontario is creating a more innovation-driven economy, helping firms scale up into global leaders, ensuring businesses have the talent they need to prosper and modernizing regulations to lower the cost of doing business. Our plans to stay at the forefront of the global shift to a low-carbon economy and transformative technologies will create jobs and economic growth.

- Artificial Intelligence
- Sharing Economy
- Low-Carbon Economy
- Regional Development
- BGI
- LTIP
- FinTech
- JPF
- Int'l Trade

PUBLIC SERVICES YOU CAN COUNT ON

HEALTH CARE

Ontario continues to make improvements to the health system to deliver high-quality health care that puts patients and their families first. Ontario's plan is providing faster access to the right care, better home and community care, the information patients need to stay healthy and a health care system that's sustainable for generations to come

- Health Funding (3%)
- Dementia
- First Nations Health Action Plan
- Primary Care
- Mental Health
- Midwifery Services
- Capital
- Hospitals
- LTC Homes
- Alcohol Strategy
- Supervised Injection Services

EDUCATION

Ontario's strength has always been its people. The government is investing to help create barrier-free access to education for all and to ensure students are learning the skills they need to succeed now and in the economy of the future.

- Specialized Education
- First Nations primary, secondary and post-secondary education
- Full Day Kindergarten Class Sizes
- Labour Peace
- Education for newcomers
- New OSAP enhancements
- Capital

TRANSIT & TRANSPORTATION

The government continues to invest in reliable transportation infrastructure to help move people and goods to support a competitive economy and better connect communities. Ontario is building stronger public transit systems that will offer more travel options for commuters and families.

- Regional Transit Projects
- Hwy Expansion
- PRESTO
- GO Transit
- Moving Ontario Forward
- Municipal Projects
- Asset Optimization
- Trillium Trust

INCLUSIVE COMMUNITIES

Everyone should have the opportunity to realize their full potential and participate equally in society. Ontario is strengthening its socials services and exploring how the income security system can be more responsive to realities of the modern labour market.

- Refugee Integration and Settlement
- Transitioning Adults with Special Needs
- Action Plan for Reconciliation
- Social Assistance
- Autism Program
- Basic Income
- LTAHS

RESTORING BALANCE: ONTARIO'S ECONOMIC AND FISCAL STRENGTH

Ontario's plan to create jobs and grow the economy is working. The plan has strengthened Ontario's economy and restored the Province's finances to balance. The government has achieved this while making strategic investments to support people, communities and public services.

Fiscal Architecture: Building Blocks

- In addition to incorporating updated revenue and expense information, as well as government decisions made since the 2016 Budget, 2017 Document fiscal architecture also needs the following key building blocks:

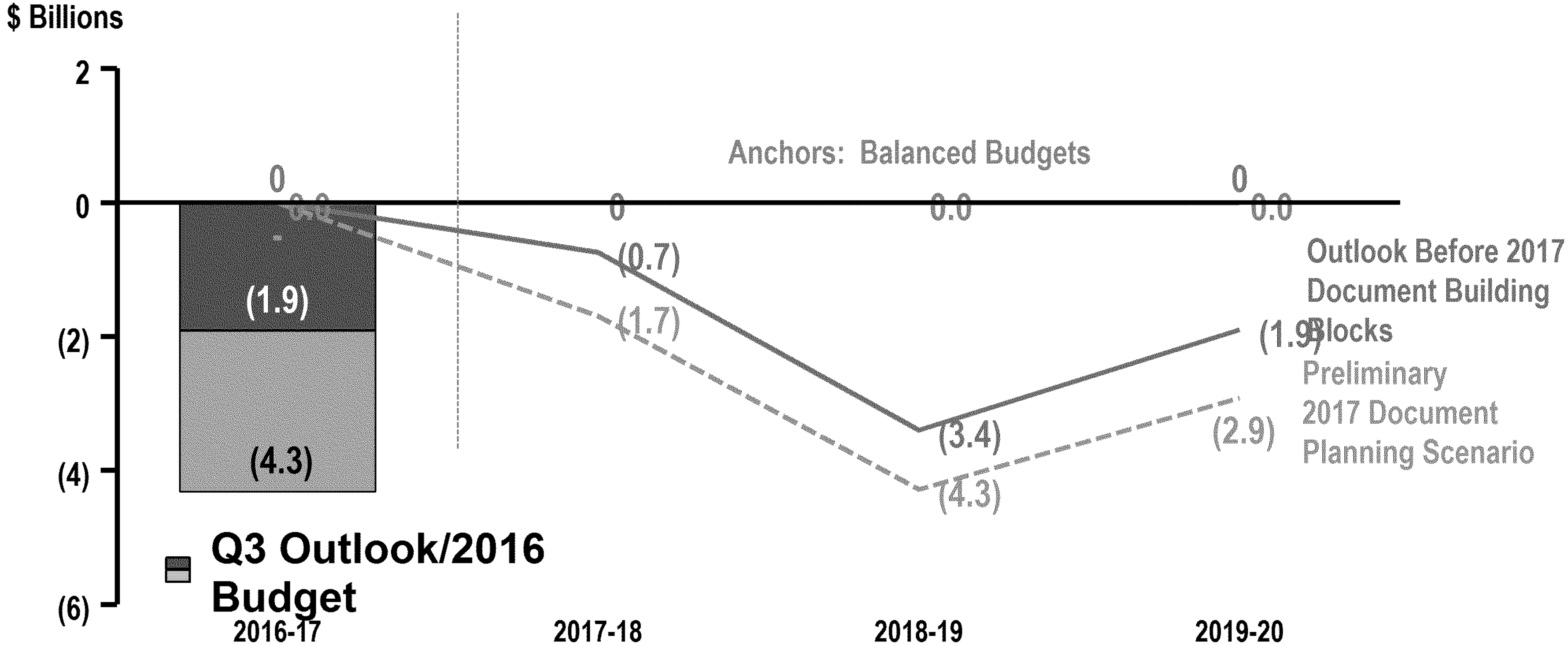
Envelope to Support Priority Investments	**Targeted Tax Measures to Strengthen Revenue Outlook**	**Strengthen Prudence in Fiscal Plan (e.g. Contingency Fund)**

Fiscal Anchors: Ongoing Balanced Budgets

Prudent Debt Management: Declining Net Debt-to-GDP, Interest on Debt Expense

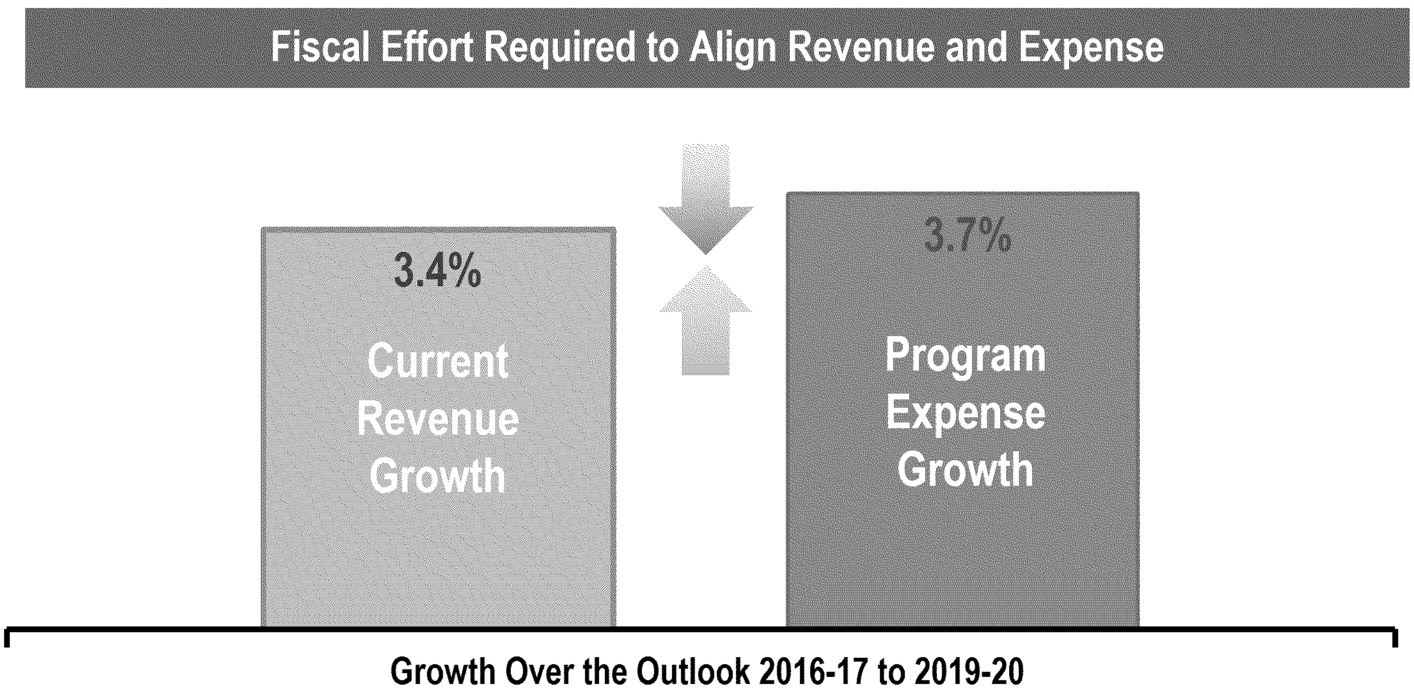
2017 Document: Fiscal Architecture Generates Gap

- Once additional fiscal architecture building blocks are taken into account, the fiscal gap expands.
- Reconciling fiscal anchors of balanced budgets over the next three years will require revenue and expense tools that will close the gap without jeopardizing investments or achievability of fiscal targets.



Approaching Fiscal Tools

- The preliminary 2017 Document planning scenario shows that **program spending growth exceeds revenue growth** over the outlook period.
- Achieving a balanced plan while providing room for investments will require significant fiscal effort to **either constrain program spending and/or increase revenue**, so that revenue and expense are aligned – which is also the recipe for ongoing fiscal sustainability.
    - Achieving this will require considering all viable revenue and expense tools/levers – with a view to long-term, rather than short-term, perspectives.
- An ongoing **mismatch between revenue and expense growth results in a structural deficit**.



Potential Tools to Achieve Fiscal Targets

Revenue

- Several revenue tools could be considered to close the fiscal gap, including:
  - More Aggressive Revenue Assumptions
  - Targeted **tax changes**
  - Revenue Strategy Target
- Engagement with the **federal government** to maximize federal funding.

Expense

- A **systematic program review process** with the goal of identifying opportunities for innovation, enhanced client-focus and improved program outcomes.
  - **Ongoing monitoring of efficiency and outcomes of all programs reviewed** to drive transformation.
  - **Savings may result from enhanced system efficiency** in the longer-term.
- **Revisiting approvals to date and managing** the amount of **new investments.**
- **Managing forecast risks** outside the fiscal plan.

Fiscal Architecture: Key Take-Aways

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**
- 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 lead-up to the 2018 Document.