DM Technical Briefing Deck

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Purpose

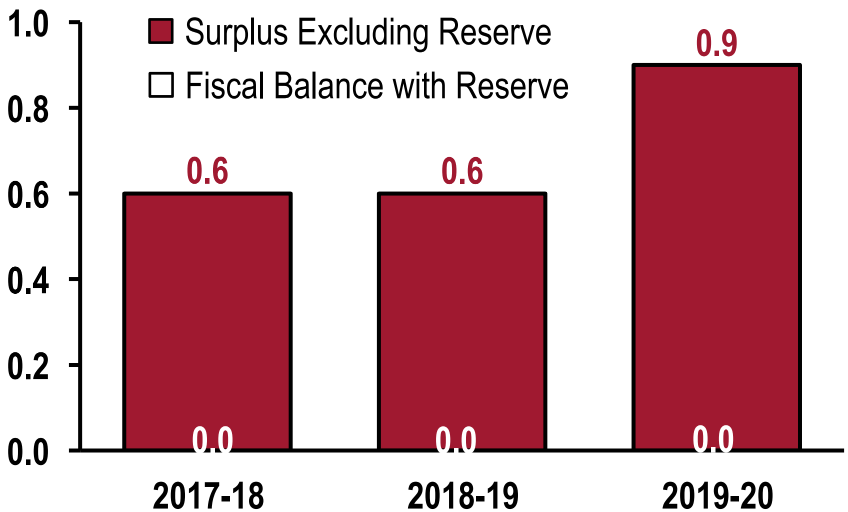
- Recap the current fiscal outlook, including the latest economic and revenue updates, expense approvals, and major risks.
- Review scenarios for preliminary allocations that limit pressure on the fiscal plan.
- Provide context for 2018-19 PRRT cycle.

PART I: Update on *Fiscal Outlook*

Recapping the 2017 Budget Fiscal Architecture

2017 Budget Fiscal Targets

Fiscal Balance
($ Billions)



Net Debt-to-GDP				
	2016-17	2017-18	2018-19	2019-20
Outlook	37.8%	37.5%	37.3%	37.2%
Targets	▪ 35% in 2023-24 ▪ 27% in 2029-30			

- Ratio peaked in 2014-15 at 39.1%
- 1% change in the GDP would impact ratio by ~0.5 percentage points.

Historically low reserve of $0.6 billion in 2017–18 and 2018–19, $0.9 billion in 2019–20.

Key Revenue Assumptions (2017–18 to 2019–20)

- The forecast assumes **revenue growth continues at a stronger pace than would normally be forecast given the economic outlook** and removes prudence from the nominal GDP forecast as well as assumes a modest slowing of the housing market.
- Assumes **High-Yield Tax assumptions** of $1.3 billion in 2017–18, $1.8 billion in 2018–19, and $2.2 billion in 2019–20, and zero PIT tax planning.
- Includes **Revenue Integrity Targets** of $0.1 billion in 2017–18, $0.2 billion in 2018–19, and $0.4 billion in 2019–20.
- Assumes no year-over-year decline in **Equalization Payments in 2018-19 (flat-lined at $1.4 billion)**.
- Potential accounting impacts that amount to $0.5 billion in 2018–19 and 2019–20.

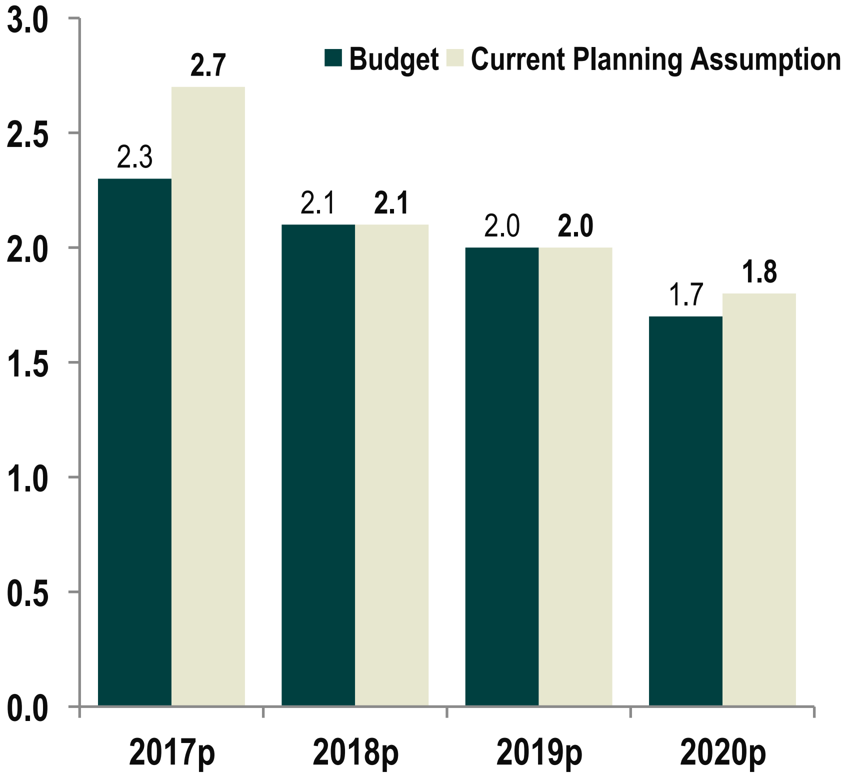
Key Expense Assumptions (2017–18 to 2019–20)

- **Net increase in program expense of $16.4 billion over three years** compared to the *2016 Budget* to invest in every sector and increase overall average spending growth from **1.9% to 2.9%** -- with a particular focus on **health and education.**
- However, overall program spending **remains constrained** – continues to decline as a share of GDP; overall growth slower than inflation+population.
- **Contingency Funds** at $0.6 billion in 2017–18; grows to $1.8 billion in 2019–20 (including set aside for MoFwd Outside the GTHA of $0.7 billion)
- **Year–end Savings** targets of $1.2 billion in 2017–18 and 2018–19, and $1.1 billion in 2019–20.
- **Program Review Savings** targets of $750 million in 2018–19 and 2019–20.
- Limited **Interest-on-Debt** prudence over the outlook.

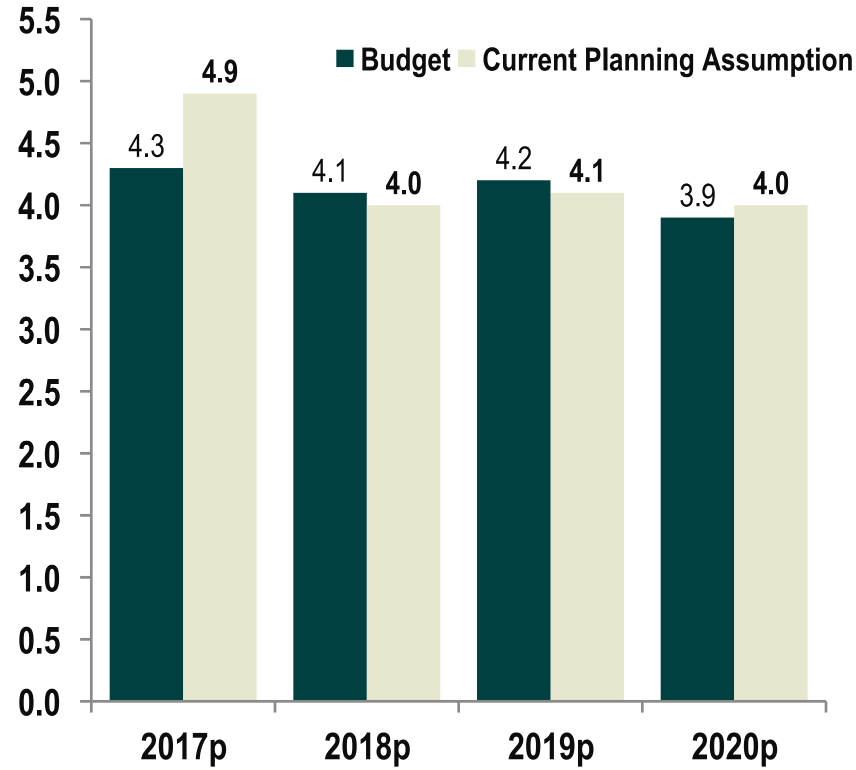
Stronger 2017 GDP Growth since Budget

- Average private sector forecast for 2017 nominal GDP growth has increased 0.7 percentage points based mainly on strong performance in the January to March quarter. Estimated impact of $0.7 billion on revenues in 2017-18 and beyond.

Ontario Real GDP Growth (Percent)

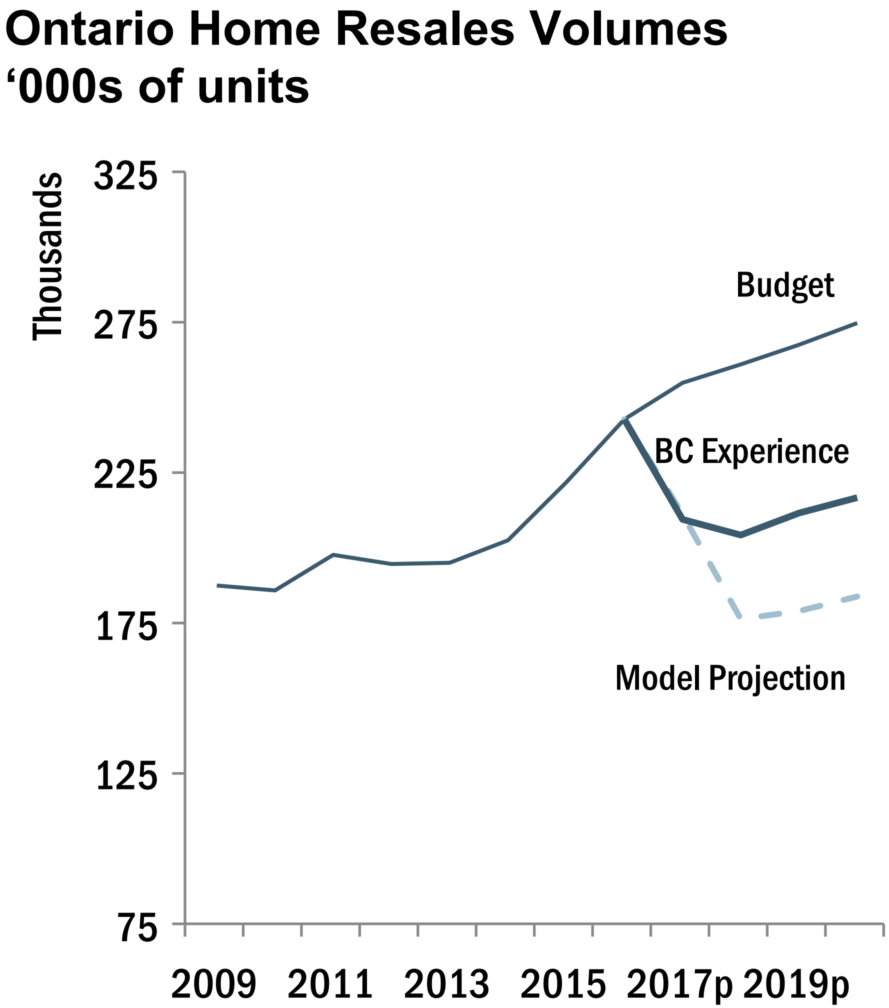


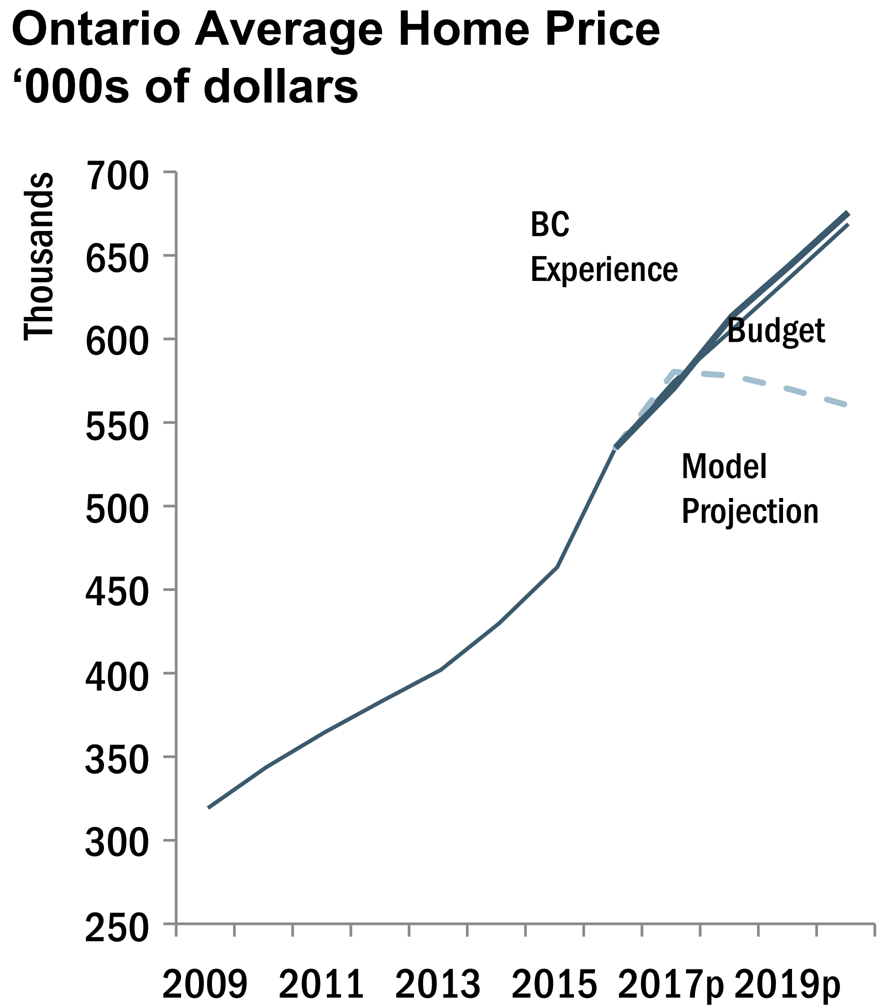
Ontario Nominal GDP Growth (Percent)



Budget projection: real GDP -0.1 ppts below PSA, nominal GDP equal to PSA
Current planning assumption: real and nominal GDP both 0.1 ppts below PSA
Source: Ontario Ministry of Finance.

Uncertainty Surrounds the Housing Resale Market





Source: CREA and Ontario Ministry of Finance.

Forecast Implications of Finalized 2016-17 Revenues

$ Billions	Interim	Public Accounts	Change	Implications for Forecast for 2017-18 and Beyond
Total Revenues*	**141.3**	**140.7**	**(0.6)**	**Largely carries forward**
Taxation Revenues	95.1	94.3	(0.7)	Carries forward. Lower PIT largely offset by higher CIT and other taxes.
Government of Canada Transfers*	24.8	24.5	(0.3)	Fiscally neutral. No material carry forward.
Government Business Enterprises	5.3	5.6	0.3	Expected to carry forward. Discussion with GBEs occurring.
Other Non-Tax*	16.2	16.3	0.1	No material impact going forward.

** Interim numbers are restated to include the revenue impact of the line-by-line consolidation of the Broader Public Service (BPS) organizations.*

Expense Updates since the 2017 Budget

Program expense

- In 2017-18, in-year approvals have been offset from either the contingency funds or revenue. In 2018-19 and beyond, the out-year impacts of in-year approvals add pressure to the plan.
- Other risks over the outlook have been identified, including:
  - Compensation risks: physician services negotiations; attorney compensation; judiciary compensation; impact of minimum wage
  - Demand driven risks such as land claim settlement funding, and implementation risks such as creating 100,000 child care spaces and capital pressures related to the National Housing Strategy.
- Additional savings – beyond the year-end and program review savings target – (e.g., boulder targets) have been assumed in the fiscal plan and may be challenging to achieve.

Interest on Debt

- The **Interest on Debt (IOD) forecast has not changed since the 2017 Budget**, however **significant IOD savings assumptions** were made for 2017-18 and 2018-19 in the 2017 Budget resulting in **downside risk to the forecast** for this year and next

PART II: *Establishing Preliminary Allocations*

Unique Considerations for this Fiscal Cycle

There are a number of unique considerations for this fiscal cycle that impact the context of fiscal planning.

General Factors

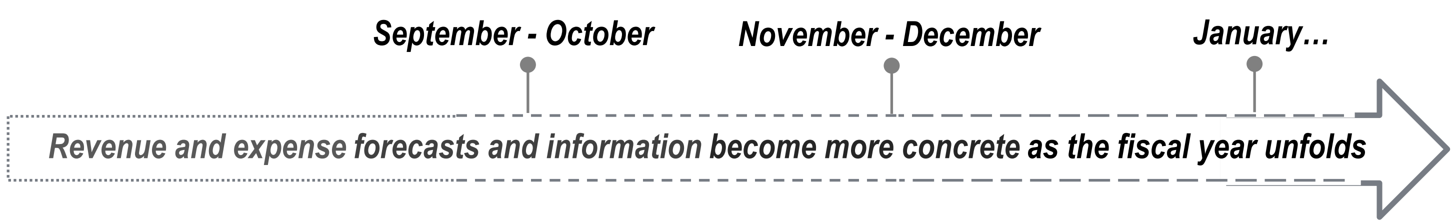
- **Pre-Election Report and scrutiny of the fiscal plan**: The 2018 Document will also inform a Pre-Election Report. The fiscal projections over the outlook will be scrutinized for reasonableness by the Auditor General. In addition, the Auditor General is expected to continue to criticize the government over its accounting treatment of net pension assets and the electricity cost refinancing component of the Fair Hydro Plan.
- **FAO Reports**: The FAO's 2017 Spring Outlook continued to suggest that, while balance in 2017-18 may be within reach, the province will likely return to, and remain in, deficits over the outlook. The FAO's August 2017 commentary on the province's revenue forecast echoed the same sentiment, adding that there appears to be significant downside risk to the government's revenue forecast.
- **Line-by-line consolidations**: Accounting changes will take effect in the 2016–17 Public Accounts, reflecting the revenues and expenses of BPS organizations on a line by line basis and in all public reporting thereafter. Though the change will be fiscally neutral, it will impact sector growth rates and any year-over-year comparisons.

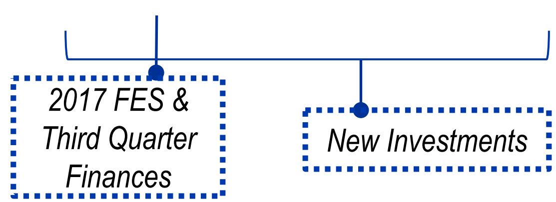
New Fiscal Targets for this Cycle

- **Revenue integrity**: A revenue integrity target has been set in each year over the outlook ($0.1 billion in 2017-18, $0.2 billion in 2018-19, and $0.4 billion in 2019-20) that will need to be solved through measures to combat the underground economy and close tax loopholes.
- **Program review savings target (PRST)**: A $750 million PRST has been set in both 2018-19 and 2019-20. In order to achieve these savings, the government is initiating a multi-year enhanced approach to a line-by-line review, integrated into the PRRT process, with pilots being launched in the fall and results feeding into the 2018 Document.

Evolution of the Fiscal Year

- Allocations are the foundation of the PRRT process, and represent the starting point for the fiscal plan leading up to the outlook published in the 2018 Document and pre-election report.
  - This year allocations have been set to **limit additional pressure on the fiscal plan**.
- Through PRRT, Ministries are required to demonstrate their plan to **manage from within** these allocations. This year's PRRT process is **not designed to assess and make decisions** on **new initiatives that require new funding**.





Selecting Approvals and Risks

- The out-year impacts of in-year board approvals as well as major risks cause program expense to potentially grow from $2.4 billion in 2018-19 to $4.7 billion in 2020-21.
  - Throughout the year, the impact of these pressures will evolve as new information is received.

Board Approvals & Fiscally Neutral Items

(Included in Preliminary Allocations)

In-year approvals with multi-year impacts, where ministries involved would have difficulty offsetting amounts from within existing allocations.

Examples Include:

- Rural and Northern Education Fund
- Nishnawbe Aski Nation Education Funding
- GO-TTC Discounted Double-Fare Initiative

Board approvals excluding fiscally neutral items:

2018-19: $0.1B **2019-20**:$0.1B **2020-21**:$0.1B

Board Approvals – Out-Years TBC

(Not included in Preliminary Allocations, deferred to PRRT)

In-year approvals with multi-year impacts, where scale and timing are to be confirmed.

Examples Include:

- OHIP (OMA 2.6% mandate)
- Child Care (operating for 100k spaces)
- Achieving Excellence/Whole Child

2018-19: $0.7B **2019-20**:$1.0B **2020-21**:$1.2B

Major Risks

(Not included in Preliminary Allocations)

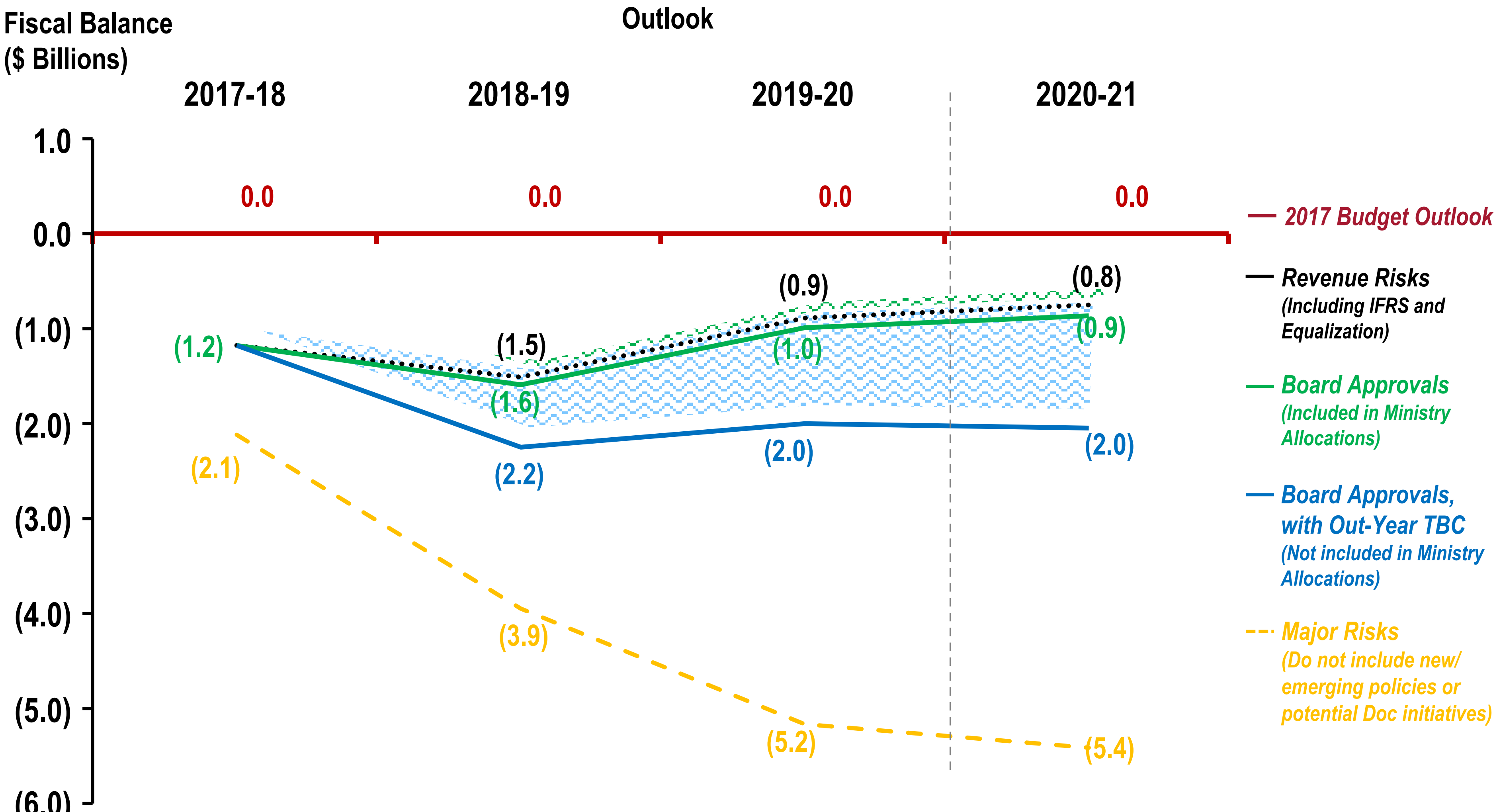
Pressures that are likely to materialize, but continue to evolve and do not necessarily need to be included in ministry Preliminary Allocations.

Examples Include: Compensation Risks, Capital Risks, and Aboriginal Issues and Land Claims

2018-19: $1.7B **2019-20**:$3.2B **2020-21**:$3.4B

The Resulting Fiscal Gap

- Revenue forecast updates and hard revenue risks result in a gap relative to the governments fiscal targets (black line).
- Layering on select board approvals adds approximately $0.1 billion to the current outlook in each year (green line). Incorporating approvals with unconfirmed out-year impacts (blue) further deteriorates the outlook. However, the gap remains constrained relative to funding all major ministry identified risks (yellow line).
- Assumes unchanged reserves and c-funds. Also assumes Year-end and Program Review Savings Targets are met.



PART III: Additional Fiscal Considerations

2017-18 Fiscal Planning Considerations

Change since the 2017 Budget *($ Billions)*	2017 Budget*	Change	2017 Early-Read	
Total Revenue	**150.0**	(A)*(0.7)*	**149.3**	
Expense				
Program Expense	137.2	(B)*0.4***	137.6	
Interest on Debt	12.2	(C) -	12.2	
Total Expense	**149.4**	***0.4***	**149.9**	
Surplus/(Deficit) before Reserve	**0.6**	***(1.2)***	**(0.6)**	Year-end outlook
Reserve	0.6	-	0.6	
Surplus/(Deficit)	**-**	***(1.2)***	**(1.2)**	

*2017 Budget amounts have been restated for BPS Line-by-line consolidations.
**Assumes increased GGRA expense to offset higher-than-forecast C&T revenue.

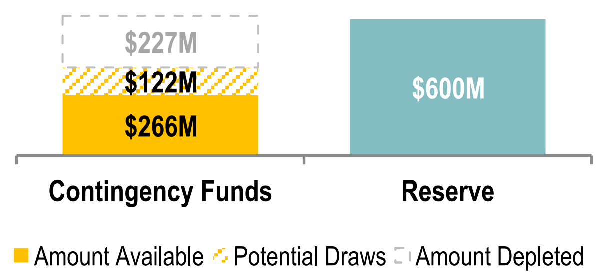
- **Overall, the fiscal outlook for 2017-18 has deteriorated.** Current trends point to a potential gap of $0.6 billion by year-end (once the reserve is drawn down).
  - (A) **Revenue** forecast is down due to lower PIT and housing resale forecasts.
  - (B) **Program expense** is up due to fiscally neutral expense items. All 2017-18 approvals are offset (c-fund or revenue). This does not include an envelope for FES Initiatives or ministry risks.
  - (C) No additional **Interest on debt** savings are anticipated.

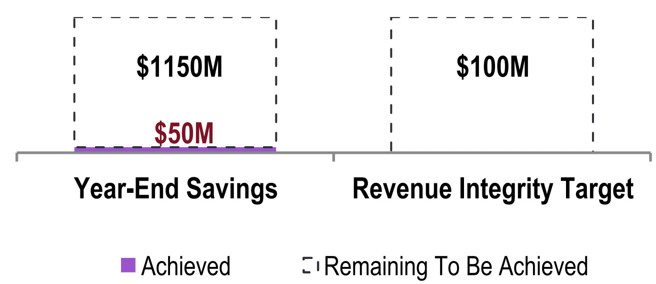
2017-18 Strategy to Achieve Balance

While current information suggests that there is a gap relative to the government's fiscal target, balance may still be achievable if action is taken to mitigate/offset further deterioration of-the plan by:

- **Limiting New asks;**
- **Capturing Underspending; and**
- **Limiting Discretionary Spending.**

Limited Flexibility in Tools, Higher Savings Targets





Timeline

- **2018-19 PRRT**
  - Launch on Friday, September 15, 2017
  - Ministry plans due on Thursday, October 26, 2017
  - Ministries' plans presented to TB/MBC from late November to December 2017
- **In-Year Expenditure Management Strategy**
  - Launch Second Quarter reporting in late September 2017
  - Ministries to report in October 2017