Fiscal Policy and Tracking in a Post 2017 Budget Context

Presentation to DMC

Draft June 15, 2017 4:00 PM

Purpose

- Provide a brief recap of the key variables, framework and other considerations that underpin the fiscal architecture of the 2017 Budget.
- Provide an overview of the strategies to help operationalize the achievement of fiscal targets through:
  - In-Year Expenditure Management;
  - Program reviews; and
  - Supporting transformation initiatives.

Context

2017 Budget Fiscal Architecture

- **While the 2017 Budget delivers on a balanced budget**, the underlying fiscal architecture provides **limited room for error and reduced fiscal flexibility**. A robust post-Budget implementation plan is required.
- Key fiscal targets include:
    - **Balance in 2017-18 and over the outlook**
    - Policy and other **measures to support growth** and **ensure integrity of base revenue**
    - **Focus on net debt-to-GDP targets**: an interim net debt-to-GDP ratio target of 35 per cent by 2023–24, and 27 per cent (pre-recession level) by 2029–30.
    - **Savings targets** including a year-end savings target of $1.2 billion in 2017–18
    - **Reduced levels of prudence**
        - **Reserve:** $0.6 billion in 2017-18 and 2018-19, and $0.9 billion for 2019-20
        - **Contingency Funds** balance of $0.6 billion in 2017–18 – **only there for unforeseen costs**

Key Issues to be Addressed

- The 2018 Budget will be followed by a **Pre-Election Report**, which will be reviewed for reasonableness by the Auditor General.
- The **FAO** has stated in its 2017 Spring Outlook that, while **balance in 2017-18 may be within reach**, the province will likely return to, and remain in, **deficits over the outlook**.
- The **Auditor General is expected to continue to criticize the government** over its accounting treatment of **net pension assets and potentially other issues**.
    - Some accounting issues will manifest themselves in the finalization of the 2016-17 Public Accounts, including changes to reflect the revenues and expenses of BPS organizations on a line by line basis.

Strategies to Support the Achievement of Fiscal Targets

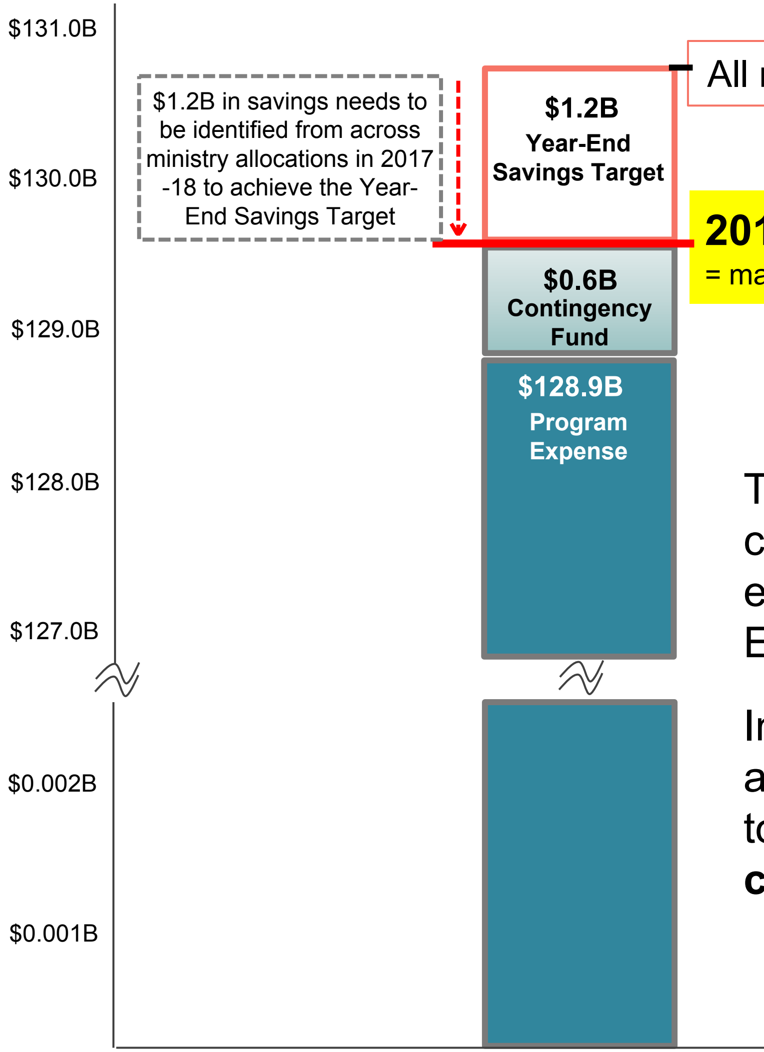
1. A robust **in-year expenditure management** strategy to meet year-end savings targets in 2017-18.

2. A systematic and strategic **program review,** focussed on ministry programs/spending, to meet targets in 2018-19 and 2019-20, and to improve sustainability and enhance value-for-money.

3. Separate from the program review, support/initiate outcome-focused and user-centered program and sector **transformation initiatives** that capitalize on opportunities for innovation.

1. In-Year Expenditure Management Approach

2017-18 Program Expense



All ministry 2017-18 approved allocations + C-Fund: **$130.7B**

2017-18 Program Expense in *2017 Budget*: $129.5B
= max. program spending across gov't to meet 2017-18 program expense target

The total of all ministry approved allocations plus the contingency fund is **greater than** total program expense published in the Budget by $1.2B (the Year-End Savings Target).

In order to **meet** the program expense amount assumed in the fiscal plan, **all ministries** are required to manage down their pressures and identify savings to **collectively achieve the Year-End Savings Target.**

1. In-Year Expenditure Management Approach

- **Improve forecasting** for large, demand driven programs/initiatives, e.g., health, education, social assistance, energy and advanced education and skills development:
  - Enhance understanding of the robustness of the methodologies used to develop forecasts; and
  - Expand engagement through more open dialogues with ministries to improve tracking of associated pressures and savings.

- **Track rate of implementation** of new initiatives more closely, including that of major infrastructure projects.
  - Ministries remain responsible for continued delivery of their commitments, including those outlined in their mandate letters.

- **Proactively identify** emerging program and policy **risks**.

- **Direct ministries to hold back a percentage (e.g., 5%) of internal discretionary spending** (e.g., salaries and wages, employee benefits, transfer payments and other direct operating expenses).

2. Program Review

- Initiate a multi-year **enhanced approach to a line-by-line review**, integrated into the PRRT process, to:
  - Identify opportunities for efficiency improvements, including savings and cost avoidance, supported by evidence;
  - Drive focus on Sustainability and Improved Outcomes; and
  - Identify new strategic initiatives and opportunities for transformation.
- The reviews will be based on a foundation of a robust program inventory and include both vertical and horizontal reviews to drive strategic and operational efficiencies.

More Robust Data	Refine the existing PRRT program inventory to: ▪ Provide a better line of sight into government's base spending / programs. ▪ Establish the underlying logic model for ministry programming. ▪ Identify opportunities and prioritize reviews.
Vertical Reviews	Review programs within a ministry (small), or a sub-component of a ministry (for bigger ministries with multiple line of business) to assess: ▪ Relevance, alignment and fit ▪ Relative performance of programs that are intended to achieve the same/similar outcomes for the same client group ▪ Opportunities for efficiencies (cost avoidance, savings)

2. Program Review

Horizontal Reviews

Look at how the same client group is supported through multiple ministries. Assess relative performance of these programs, their impacts, and explore opportunities to streamline supports.

Functional Reviews

Focus on common functions across government to explore opportunities for benchmarking, improvement/efficiencies.

- IT, Procurement, Agencies, Facilities/Realty
- Inspections/Enforcement

2017-18 as the Foundation Year:

- Summer 2017: Initiate a number of review under each stream, with results feeding into the 2018 Budget, to:
  - Realize savings towards the $750M target; and
  - Pilot different approaches to undertaking the reviews, so that the most effective approaches can be scaled up when the multi-year reviews get underway starting in 2018-19.
- 2017 Fiscal Economic Statement highlights reviews being undertaken and how the approach will be scaled up
- 2018 Budget: Results of the reviews are showcased & details provided regarding the reviews that will be done in 2018-19 (or a multi-year schedule, if desired).

3. Transformation Initiatives

A Deeper Look Into The Workstream

Purpose:

- Focus on longer term projects that focus on an **improvement to outcomes**; not the cost saving's focus of the other two streams

What Is the Solution?

- Building on the foundations of PRRT, the proposed approach for the Transformation work stream will focus on the following objectives:
  - Improve outcomes and user experience;
  - Improve efficiency and system effectiveness; and
  - Promote opportunities for innovation.

Challenges with Current Model:

- Leading successful transformational change is complex. The current approach to policy/program development has a number of challenges and can limit ability to succeed in achieving major change, including:
  - Linear process with limited ability to test, pilot and iterate
  - Siloed approach to development and delivery
  - Change enabling resources not used in integrated, strategic way

How will this be Achieved?

- Projects will reflect government priorities and have reasonable expectations of providing better outcomes for citizens.
- Initial focus will pilot and test new approaches to find out what works – aim to establish repeatable processes and methodologies
- Intent is to scale up new approaches where evidence demonstrates that the approach improves outcomes and / or enhances service experience.
- The idea is to impact both existing and future opportunities by harnessing existing resources in a more integrated and strategic way to leverage impact and help ministries drive major changes.

3. Transformation Initiatives

Resources and Enablers to Support Transformation

There is an opportunity to leverage existing assets within our central agencies

MOF	TBS	CO	MGCS
• Office of Economic Policy • Tax Policy • Tax and Benefits Administration	• Open Government • OPCD • Transformation Office • I&IT Services • Central Resources Unit • Internal Audit • CoE for Evidence Based Decision Making • Behavioural Insights Unit • Labour Relations	• CO Policy • Policy Innovation Hub • Digital Government	• Transformation Consulting Group • Service Design Review Team

3. Transformation Initiatives

Timeline:

Proposed early milestones

Phase 1: Ideation — June, July

Phase 2: Prototyping — Aug, Sept, Oct

Phase 3: Iteration — Nov, Dec

Phase 4 Finalize — Jan

- Further develop approach with Central Agencies
- Conduct "table top" exercise
- Identify 1st pilot project
- Assemble partners and affected ministries to solve

- Test approach with identified project
- Cycles of prototyping and testing
- Central agency resources deployed to support

- Continue to refine proposal by testing, evaluating and learning

- Seek final approvals
- Prepare announcement for 2018 Document