2017 Document: Fiscal Plan Context

Office of the Budget MINISTRY of FINANCE

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Purpose

- Outline the **frame, priorities, and approach** to the 2017 Document.
- Review the **current fiscal challenge** in light of government's **fiscal anchors**.
- Outline the **potential tools** that could support key investments and achievement of the government's fiscal objectives.

2017 Document – Framing and Anchoring

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,** such as **additional electricity relief,** 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.

Evolution of the Fiscal Plan and Current Challenge

Key Revenue and Expense Changes Since 2016 Budget

Since the 2016 Budget, a number of key revenue and expense changes have impacted the fiscal outlook, including:

Revenue

- Higher than forecasted taxation revenue.
- Lower projected equalization revenues.
- Lower Cap and Trade proceeds projection.
- IFRS accounting impact from the consolidation of OPG and Hydro One of up to $0.7 billion by 2019-20.
- Re-profiling the sale of the final tranche of Hydro One from 2018-19 to 2017-18.

Expense

- Combined Pension Adjustment for HOOPP and CAATPP of up to $0.8 billion by 2019-20.
- In year approvals of up to $2.7 billion by 2019-20.
- Additional Electricity Cost Relief of up to $0.8 billion by 2019-20.
- Constrained PRRT submissions above allocation of up to $1.3 billion by 2019-20.
- Constrained Scalable Priority Initiatives of up to $1.6 billion by 2019-20.

Prudence

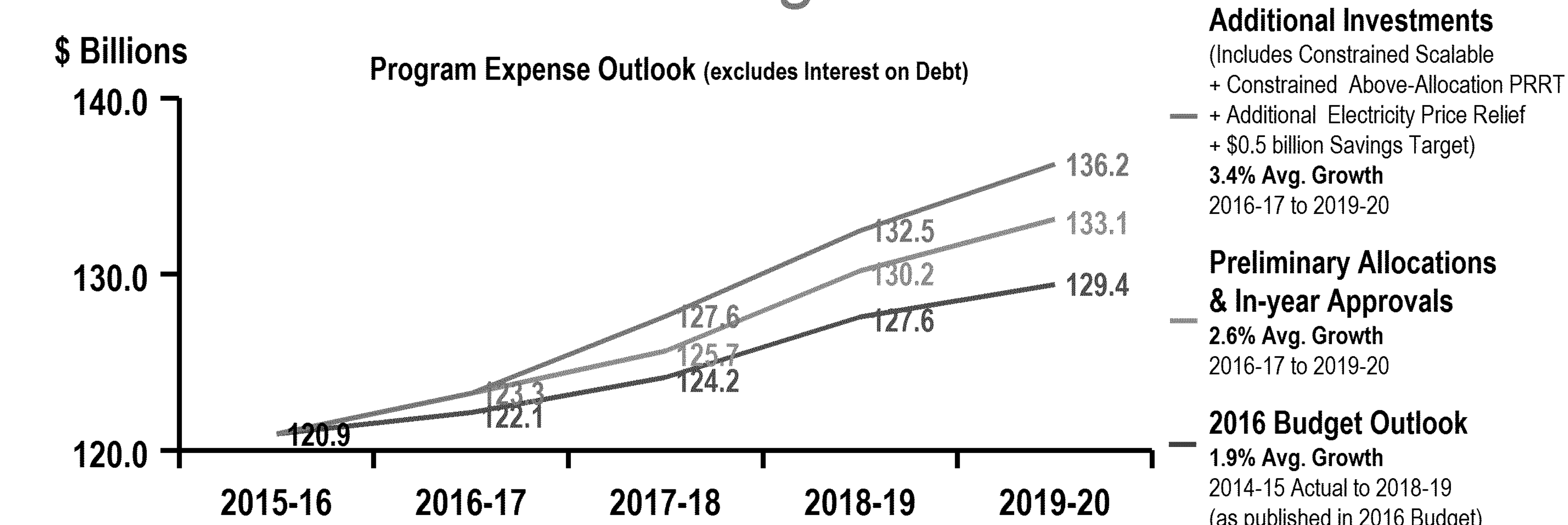
Prudence has been reduced since the 2016 Budget, resulting in remaining balances of:

- **Contingency funds:** $X.X billion in 2017-18, $X.X billion in 2018-19, and $X.X billion in 2019-20.
- **Reserve:** $0.7 billion in 2017-18, $0.8 billion in 2018-19, and $1.0 billion in 2019-20.

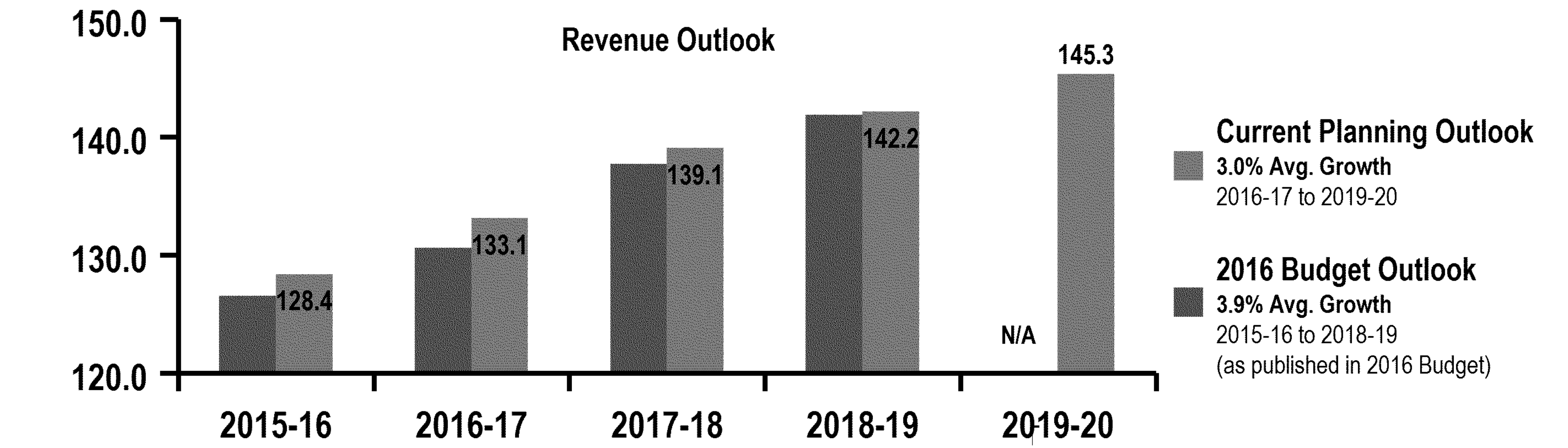
Year-End Saving Target

- **Year-end savings targets:** $1.2 billion in 2017-18, $1.2 billion in 2018-19, and $1.3 billion in 2019-20.
- An **additional $0.5 billion** savings target is being considered for 2018-19 and 2019-20.

Fiscal Context – 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

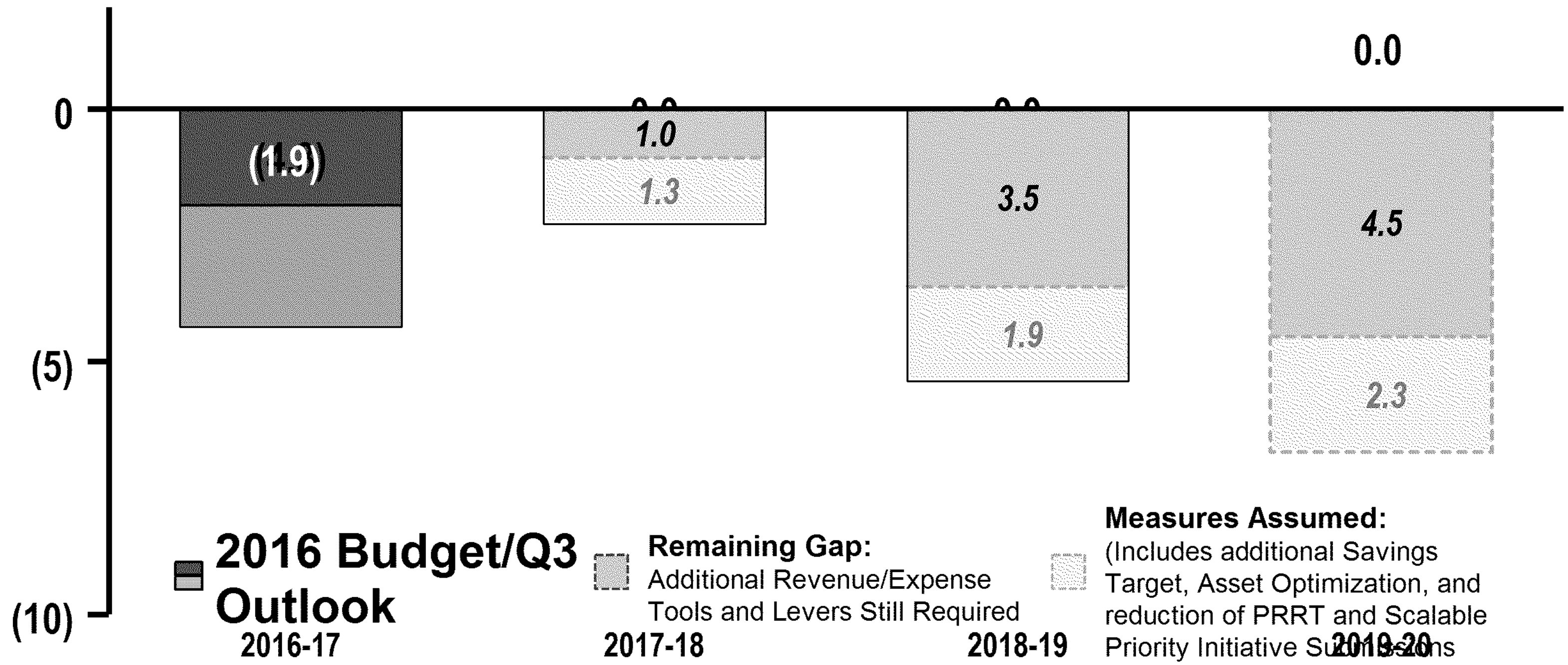


Assessing and Addressing the Fiscal Challenge

Some measures have already been identified to help close the gap: scaling back PRRT requests and scalable initiatives; introducing additional savings targets of $0.5 billion in 2018-19 and 2019-20 and advancing the sale of the final tranche of Hydro One shares from 2018-19 to 2017-18.

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

There are a number of revenue and expense measures that could be considered to achieve fiscal targets.

Additional Revenue Measures	Federal Revenue Strategy

• Determine the scope for revenue tools, including:
  • Targeted Tax Changes
  • Non-tax revenue
  • Federal tax measures
	• Engagement strategy with the federal government to maximize new federal funding, including:
	  • Equalization Protection
	  • Funding for climate change initiatives
	  • Infrastructure*
	  • Health funding*

Additional Expense Measures	**Prudence**

• Determine the scope for expense measures, including:
  • Undertaking additional transformative initiatives
  • Revisiting in year approvals
  • Timing/scaling mandate letter commitments*
  • Additional savings targets*
  • Program Review
 	
• Further Interest on Debt Savings*
	• What is the appropriate level of prudence to build into the fiscal plan?
	  • Further reductions to the reserve* or Contingency Fund*, or
	  • Pushing the revenue forecast or interest on debt forecast beyond current expectations, increases vulnerability to future downward forecast revisions

* Indicates tool that is already built into planning assumptions -- limiting potential additional fiscal effort from these tools.

Expense Tools: Program Reviews with Savings Targets

- Initiate a **systematic program review** process with the goal of identifying savings that would materialize beginning in 2018-19.
- **Buy-in from the Cabinet and ministries** is an essential condition for the program review process to meet is objectives.
- If approved, the program review process would be **launched in Spring 2017** and include:
  - Developing **savings targets for ministries** taking into account the overall allocation of ministries, current mandate commitments and non-discretionary pressures.
  - Ministries would be asked to propose plans to **implement savings targets** that avoid across-the-board reductions. Instead, the savings plans to be **informed by evidence** of effectiveness of programs and focus on PRRT principles (relevance, effectiveness, efficiency and sustainability of programs)
  - Where services are offered by multiple ministries, **costing reviews involving multiple ministries** can be initiated to identify the most effective mode of delivery. External support would be provided, as necessary, to maximize impact and outcomes.
  - **PRRT Sub-Committee** can be used to provide oversight and direction to ministries in the development phase.
  - Ministries would be asked to report back in the **2018-19 PRRT** for approval of their plans.

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.

Key Takeaways

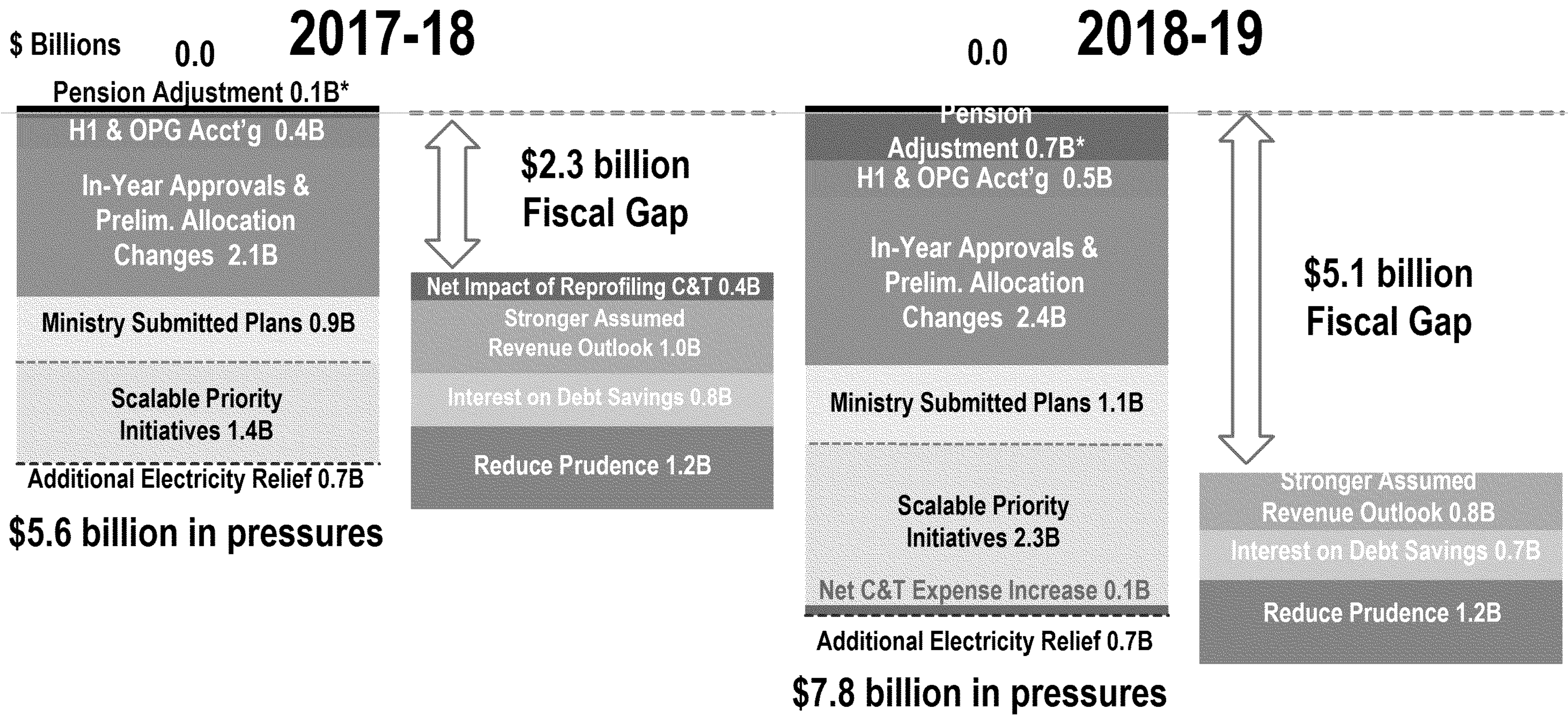
- The **2017 Document** approach will need to **reconcile** the commitment to **balance** with the desire to make **investments in priority areas**
- **Achieving fiscal objectives** while investing in new priorities will **require** the consideration of all **viable revenue and expense tools**
  - Success 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

The Fiscal Challenge

While the 2016 Budget outlined a plan to balance the budget in 2017-18 and remain balanced in 2018-19, **changes since the Budget have created a gap compared to the government's fiscal targets.**

- A stronger outlook for revenue and lower interest on debt expense are currently tracking against the Budget forecast – **however, spending pressures, new strategic investments, and the pension adjustment also materialized** – creating a fiscal gap.
- In order to accommodate fiscal pressures in 2017-18 and 2018-19, tools were taken on in the 2016 FES and the 2016 Budget. The remaining fiscal gap will need to be addressed through additional tools.



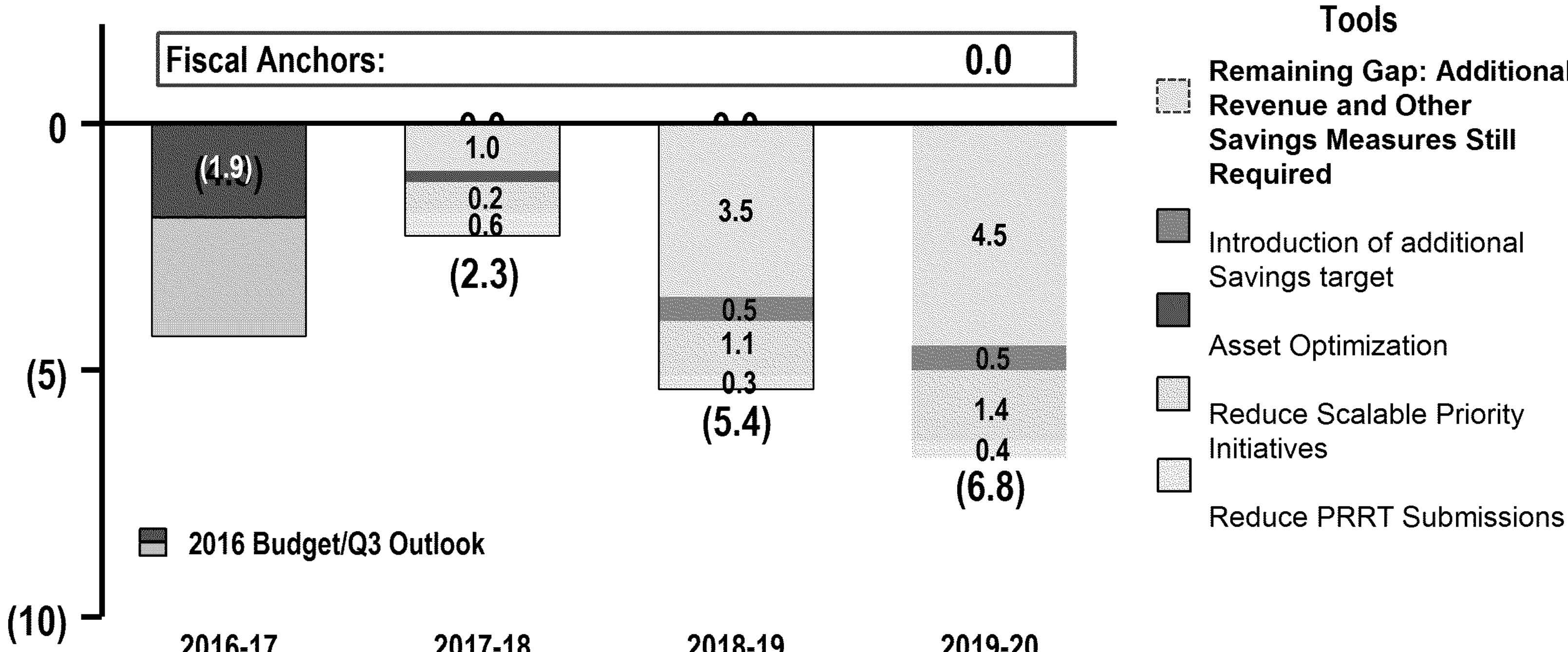
* Includes the combined Pension Adjustment for HOOPP and CAATPP only.

Note: The asset optimization tool assumed elsewhere in this presentation increases the 2018-19 gap from $5.1 billion to $5.4 billion

Assessing the Fiscal Challenge – Closing the Gap

Some measures have already been identified to help close the gap – including scaling back PRRT requests and scalable initiatives, and higher savings targets.

However, **continuing to assume fiscal anchors of balanced budgets** over the forecast horizon **means a limited envelope for additional new investments, and the need to identify additional tools and levers.**



Note: Due to the asset optimization tool assumed in 2017-18, the 2018-19 gap increases from $5.1 billion to $5.4 billion