2017 Document: Fiscal Plan Architecture

Office of the Budget
MINISTRY of FINANCE

TBS

OFFICE OF ECONOMIC POLICY
OEP
MINISTRY OF FINANCE

MM+P, March 9, 2017

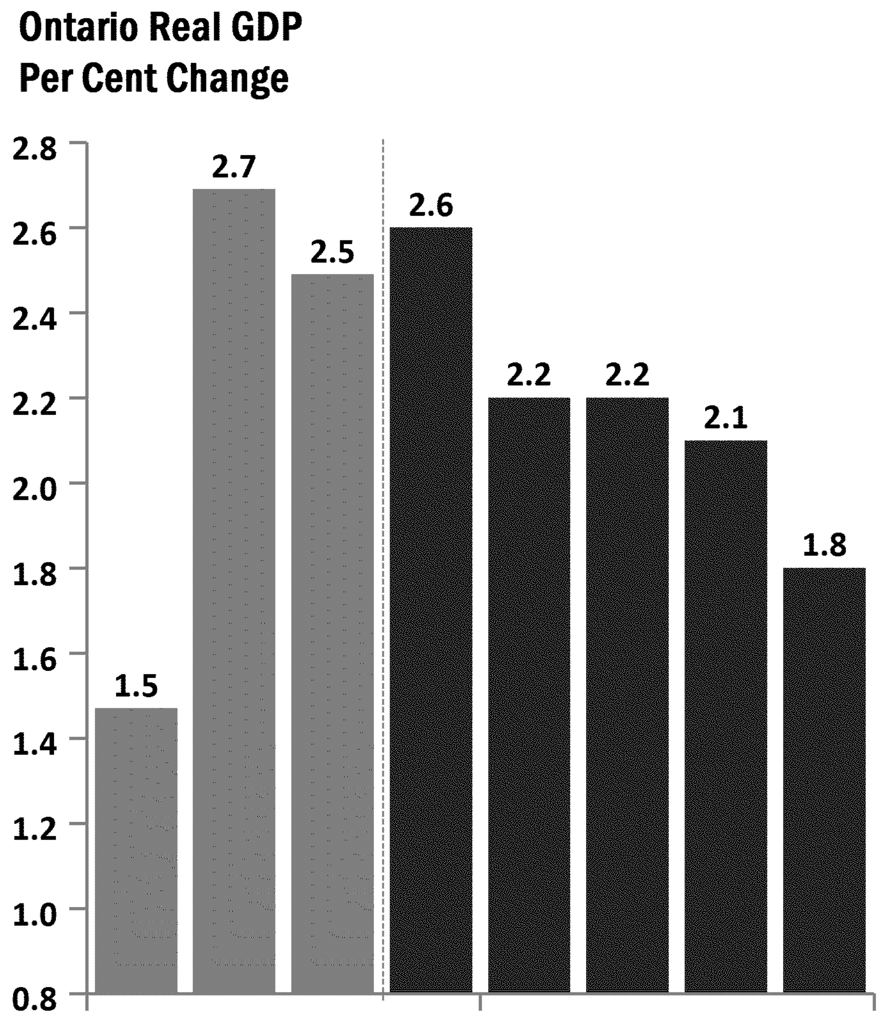
Preliminary Draft (All numbers to be confirmed) – March 4, 2017 5:15 PM

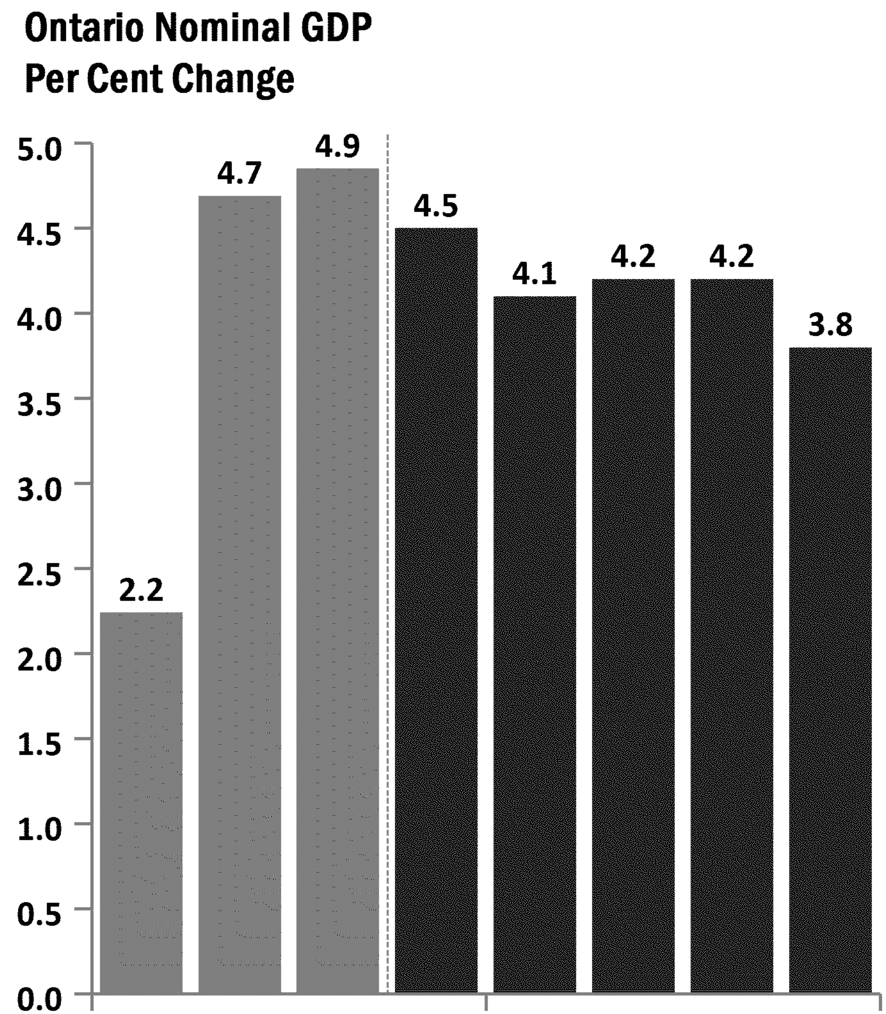
Purpose

- Provide an update on the Province's **fiscal outlook** in light of recent information, government decisions, and expected investment priorities.
- Evaluate the achievability of the government's commitment to **target balanced budgets for 2017-18 to 2019-20.**
- Discuss range of tools that would be required in order to balancing achievement of the government's fiscal objectives with priority investments.
- Taken together, develop consensus around the core building blocks of the 2017 Document fiscal architecture.

Current Fiscal Outlook

Outlook for Easing Economic Growth

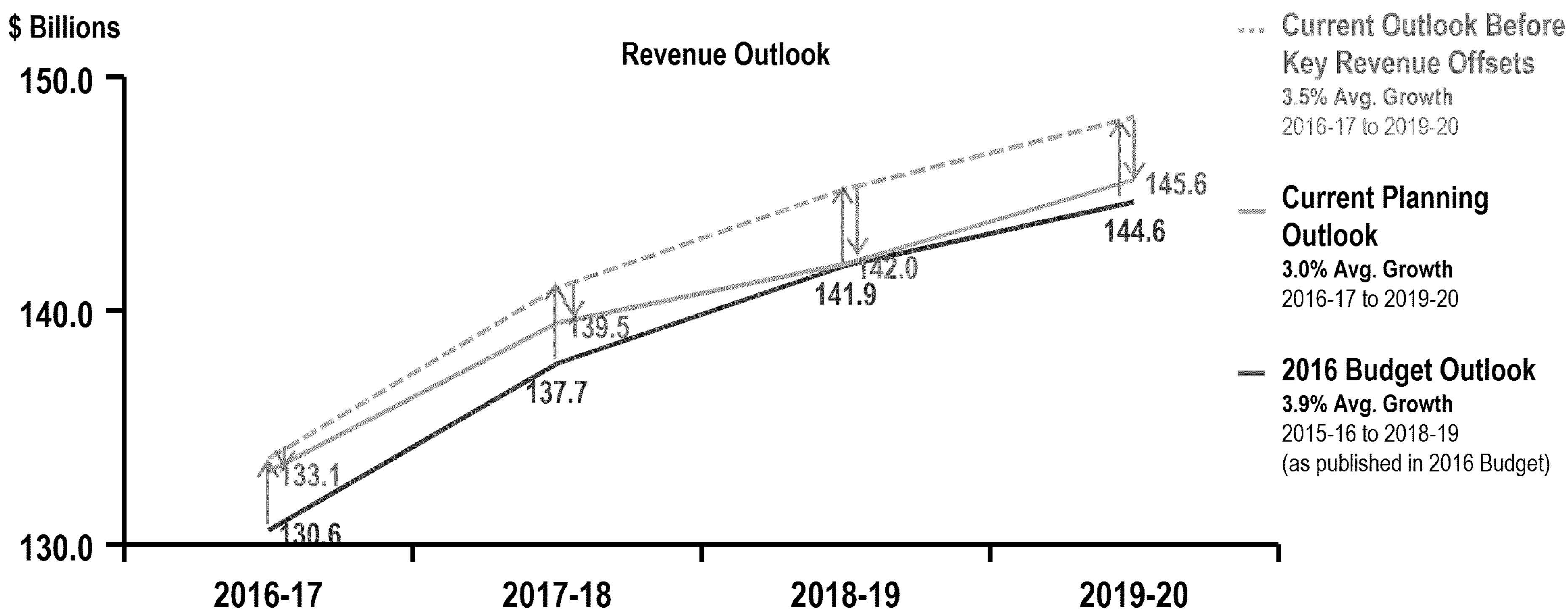




e= Ministry of Finance estimate; p= private-sector average projection

Sources: Statistics Canada, Ontario Ministry of Finance and Ontario Ministry of Finance Survey of Forecasters.

Fiscal Context – Evolution of Revenue Since 2016 Budget



Revenue Changes since the 2016 Budget

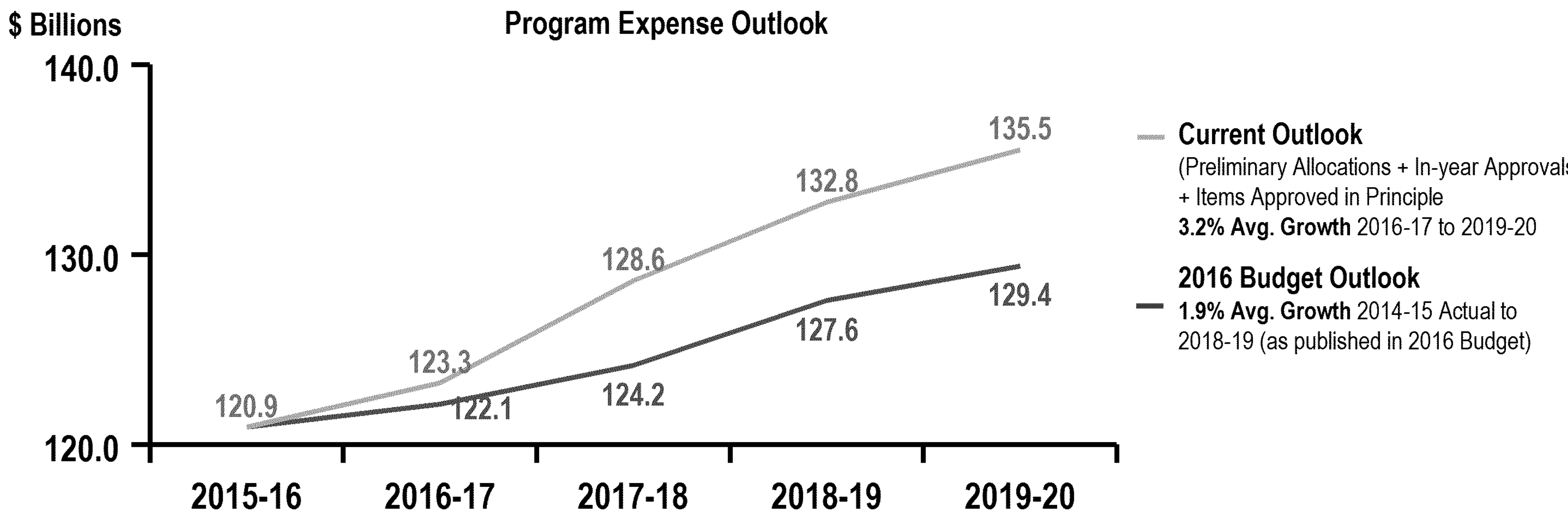
Key Increases Since Budget

- 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 to

Fiscal Context – Expense Growth – 2016 Budget to Current



	2015-16	2016-17	2017-18	2018-19	2019-20
Interest on Debt	11.0	11.4	11.7	12.5	12.7
Reserve	-	0.4	0.7	0.8	1.0

Key Drivers of Expense Growth since the 2016 Budget

Since the *2016 Budget,* program expense has increased by [$5.8] 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 a year in additional Electricity Cost Relief announced in the fall and on March 2.

TO BE UPDATED

Program Expense Growth

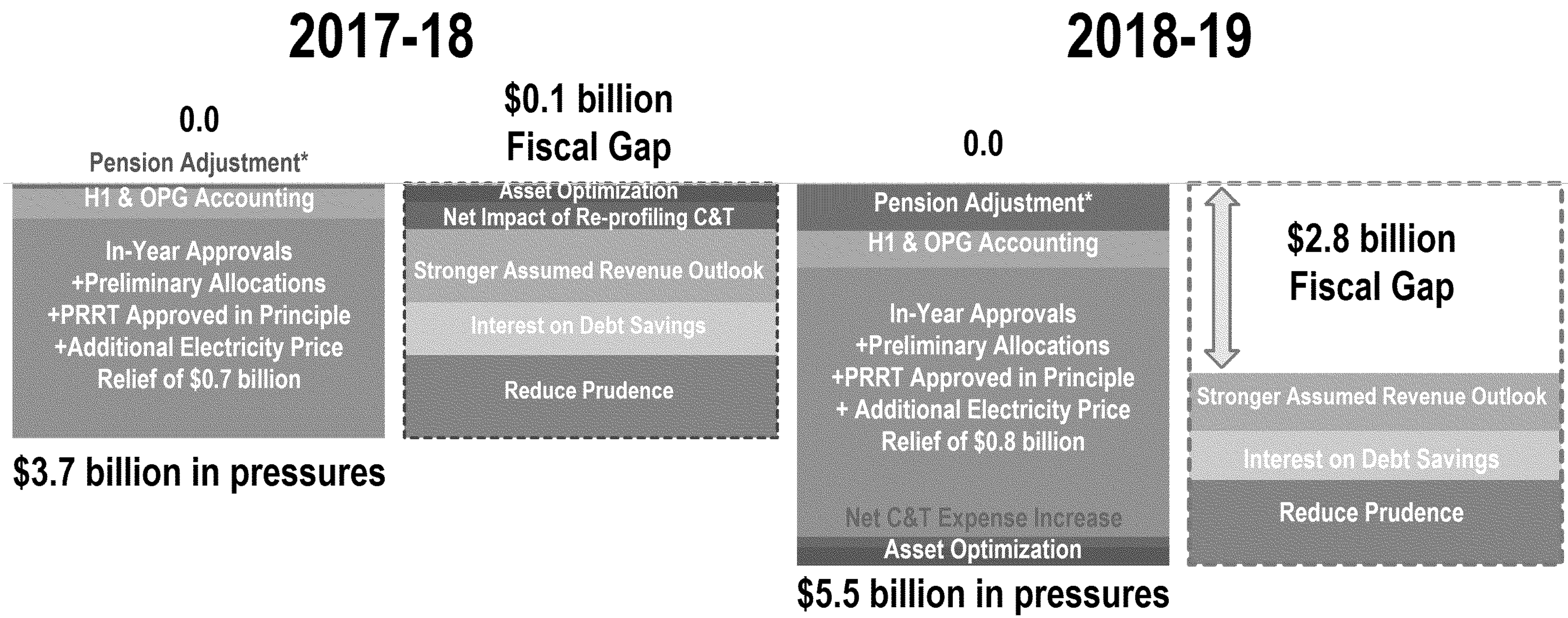
$ Billions	17-18	18-19	19-20	20-21	Avg. Annl 15-16 to 19-20	Avg. Annl 16-17 to 19-20
2016 Budget Program Expense	**124.2**	**127.6**	**129.4**	**131.6**	1.7%	1.9%
Annual growth	1.7%	2.8%	1.4%	1.7%		
Change in pension accounting	0.1	0.7	0.8	0.8		
In-year changes and allocation adjustments	1.9	1.8	2.7	3.0		
Preliminary Allocations Outlook	**126.2**	**130.1**	**132.9**	**135.4**	2.4%	2.6%
Annual growth	2.5%	3.1%	2.2%	1.9%		
Expenses with revenue offsets and other changes	0.6	0.5	0.2	0.2		
Approved-in-principle above Preliminary Allocation*	0.3	0.7	1.3	1.3		
Outlook with Approved-in-Principle	**129.6**	**131.3**	**134.4**	**136.9**	2.7%	3.0%
Annual growth	4.1%	3.3%	2.4%	1.9%		

*Includes Additional Electricity Cost Relief

Drivers of the Current Fiscal Outlook

TO BE UPDATED

- The *2016 Budget* outlined a plan to balance the budget in 2017-18 and remain balanced in 2018-19,
- However, **changes since the Budget have created a gap compared to the government's fiscal targets – even before new investments have been included.**



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

Current Fiscal Planning Outlook

UPDATE TEXT

Latest Revenue Forecast + Approvals to Date, No New Investments or Additional Tools

- Taking into account current information on revenue, government approvals through the PRRT, and interest on debt expense, the Province's fiscal outlook is not on track for balanced budgets to 2019-20 – **even before new priority investments are built in, and prudence is rebalanced.**
- Balanced budgets are achievable **if revenue and expense tools and levers are identified.** As more new initiatives are required, the more tools will be needed **to align fiscal and investment objectives**.

$ Billions	2017-18	2018-19	2019-20	Avg. Ann Growth 2016-17 to 2019-20	Avg. Ann Growth 2017-18 to 2019-20
Current Revenue	**139.5**	**142.0**	**145.6**	**3.0%**	**2.2%**
Incl. High Yield Assumptions	*1.2*	*2.0*	*1.1*		
Program Spending – Approved In Principle	**128.6**	**132.8**	**135.5**	**3.2%**	**2.6%**
Incl. Current Contingency Funds	*0.2*	*1.1*	*1.8*		
Incl. Current Year-End Savings	*(1.2)*	*(1.2)*	*(1.1)*		
Current Interest on Debt	11.7	12.5	12.7		
Total Expense	**140.4**	**145.2**	**148.2**	**3.3%**	**2.8%**
Current Reserve	0.7	0.8	1.0		
Planning Surplus/(Deficit) or Fiscal Room/(Hole)	(1.6)	(4.0)	(3.6)		
Fiscal Anchor	–	–	–		

Risks

Revenue Risks:

- Unconditional Federal Funding Assumptions
- PIT tax planning risk

Expense Risk:

- C-fund depleted in 2017-18
- Low reserves in 2017-18 and 2018-19
- No new spending or Document initiatives

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

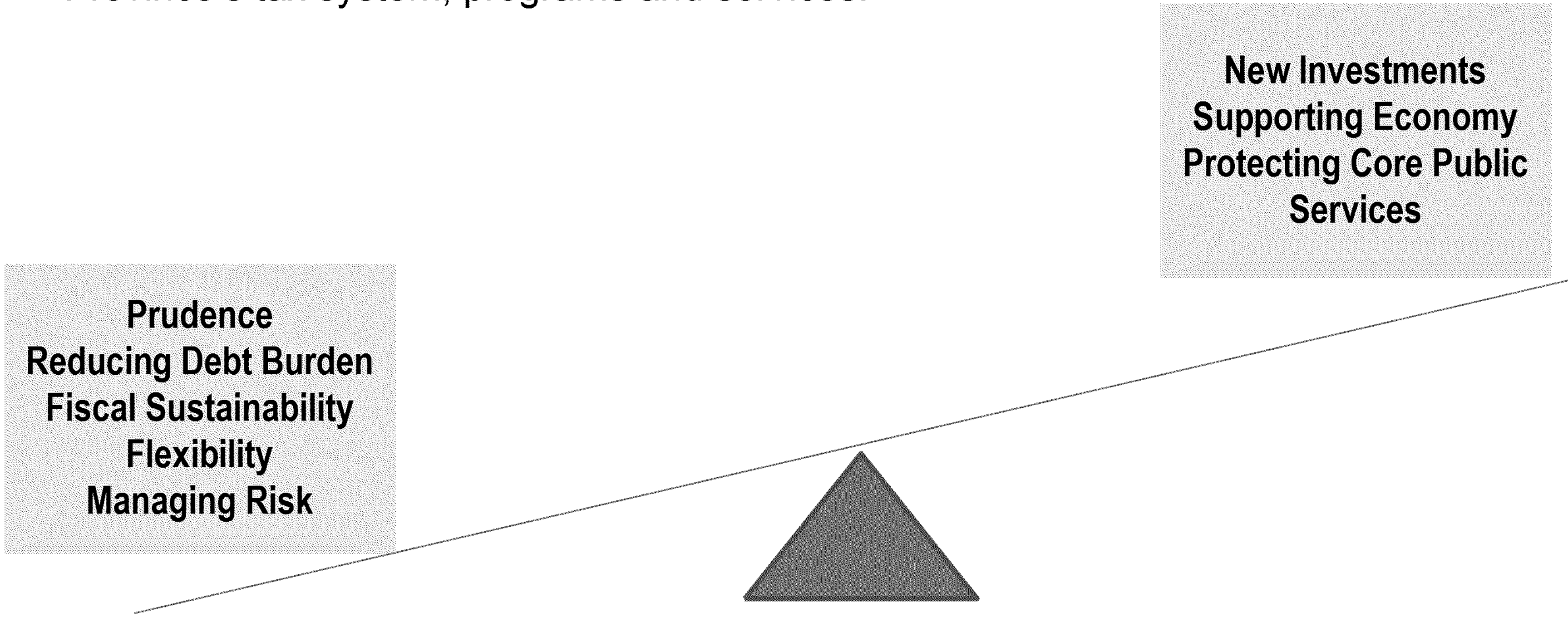
- Continue to beat **deficit targets** and return the Province to **balanced budgets**.
- Moving forward, ensuring a **fiscally sustainable** and credible plan.

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.

Fiscal Planning Principles with Balanced Budgets

- Since 2008-09, the Province has run 8 consecutive deficits. During this period, multi-year fiscal plans were set in order to ensure targets were met or overachieved, to ensure that progress towards balance budgets was secured.
- With the Province potentially on the doorstep of balanced budgets, fiscal planning principles and pillars of success could be reviewed and renewed in order to ensure the right balance of sustainability, flexibility to respond to unforeseen events, ensure investment opportunities are maintained, and incentives for ongoing transformation and modernization of the Province's tax system, programs and services.

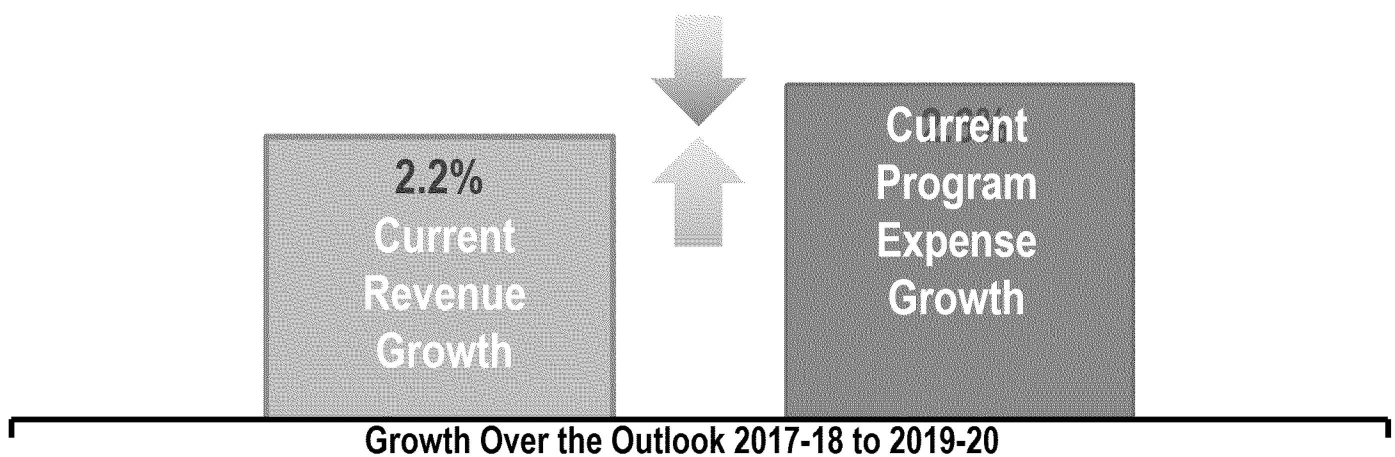


Growth Over the Outlook 2017-18 to 2019-20

Planning for Sustainability

- Current planning outlook shows that, in the absence of fiscal effort, and even before new investments are taken into account, **program spending growth exceeds revenue growth**.
- 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**.

Fiscal Effort Required to Align Revenue and Expense



Potential Tools to Achieve Fiscal Targets

Achieving balance while making new investments will require significant spending constraint or revenue generation, particularly in 2018-19 and 2019-20. Some potential revenue and expense tools include:

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.

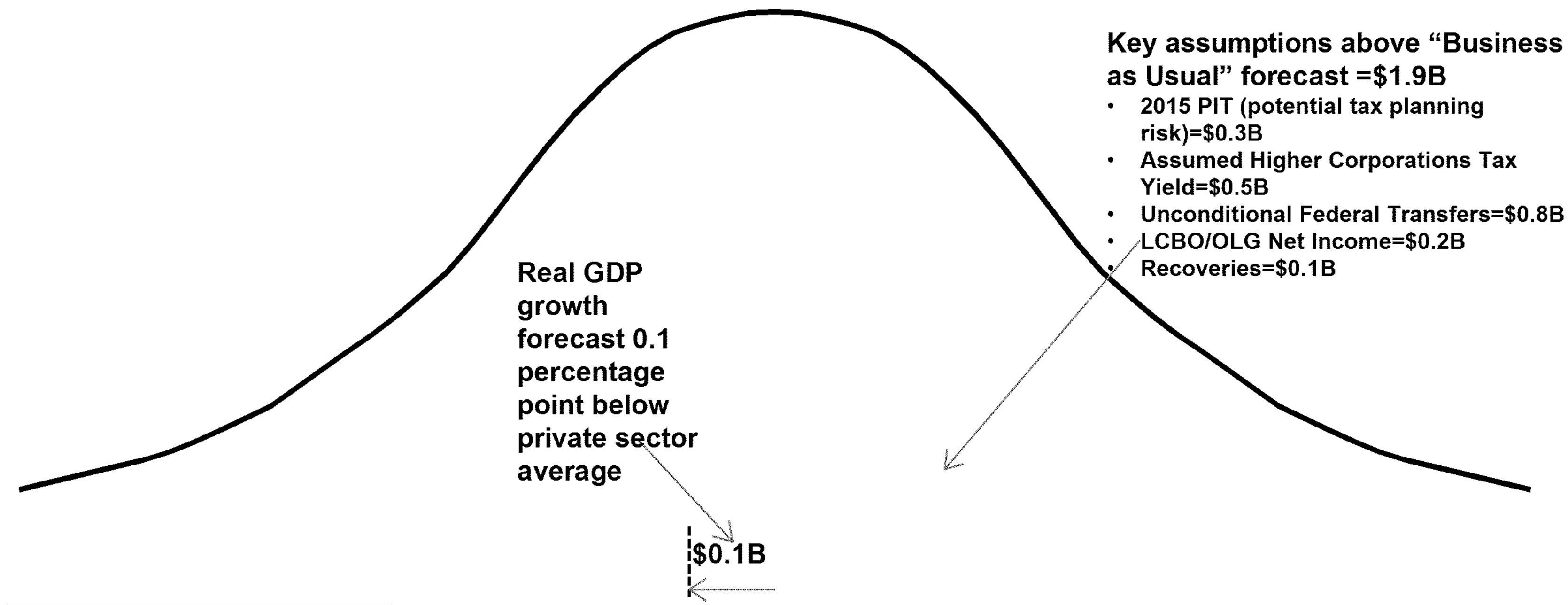
Expense

- 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.
- **Managing** the amount of **new investments.**

Placeholder for OEP

Revenue Forecasting Options

- The government can consider a more aggressive revenue forecast that would support achieving balance but reduce prudence in the plan.
- **Some forecast changes are likely to materialize, while others, if taken on, could undermine the credibility of the published revenue forecast and may not be realized by 2017-18 year-end.**
- **[placeholder for table of different options – both somewhat reasonable and extremely aggressive]**



Potential Revenue Tools

$ Millions	2017-18	2018-19	2019-20
Increases to Tobacco and Alcohol Taxes*			
Tobacco Tax Increase $2 per carton	40	39	38
Raise Alcohol Tax by 50 cents/24 of beer	14	41	59
Total Tobacco/Alcohol Tax	**54**	**80**	**97**
Increases to the Insurance Premium Tax	270	380	395
Increase Planned Education Property Tax (potentially tied to Education investments)	85	180	310
Total Potential Tax Tools	**409**	**640**	**802**
Other Potential Tax Tools			
Lobby for Federal Reform of Corporate Meals and Entertainment Tax Allowances	**170**	**250**	**340**

*Tobacco tax increases are equivalent to an additional cost of $2.00 per carton of 200 cigarettes. Alcohol tax increases are equivalent to an additional 50 cents per 24-case of beer (by November 2018). This would bring the total increase to $1.00 including the 25 cent per year increase over two years announced in the *2015 Budget*.

Revenue Strategy Target

- Announce the initiation of a systematic and strategic review of the government's tax system with a view to:
  - Continue to combat the **underground economy**, through the completion of current pilot programs (i.e. zappers), enhanced auditing capacity, and other anti-tax avoidance strategies.
  - Review the current corporate, personal income, and sale tax system with a few to **simplifying, modernizing, and improving fairness**.
- The 2017 Document could apply a revenue generation target as part of this strategy.

Program Modernization: Innovation, Efficiency and Impact

- Initiate a systematic program review process to identify opportunities for innovation, enhanced client-focus, and improved program outcomes.
- Focus on driving digital channels and solutions, evidence-based approaches, and innovative business practices and service delivery models. Identify opportunities to pilot new approaches, with quick scale-up where efficiencies or enhanced benefits are realized. Central agencies(1) would play a convening/enabler role.
- Initiate a go-forward requirement to monitor and report on the efficiency and outcomes of all programs reviewed. Savings may result from enhanced system efficiency (and reduced duplication for horizontal files), but this would be longer-term.
- Buy-in from the Cabinet and all 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 a schedule for in-depth review of key horizontal files, as well ministry programs, taking into account resource allocation and current mandate commitments.
    - Ministries would be asked to propose plans to implement reviews to be informed by evidence of effectiveness of programs and focus on PRRT principles (relevance, effectiveness, efficiency and sustainability of programs). Internal and 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, with approvals for review results and program modifications through the PRRT process.

(1) Central agencies would work collaboratively and bring to bear corporate resources to support transformation – TBS (Centre of Excellence, Behaviour Insights Unit, OPS of the Future (HR), Agency Oversight), Cabinet Office (policy, Digital) and MOF (OEP and OFA) available for support.

Other Expense Tools

Other Key Expense Tools
• Program Review Savings target to align with Modernization Initiatives. • Scale-back or re-scope PRRT approvals-in-principle. • Manage more ministry pressures as risks – including items deferred from PRRT – or other demand-driven risks that are subject to future re-forecasts (e.g. social assistance, pension expense, etc). • Apply more Cap and Trade Proceeds to in-plan initiatives or other measures that create fiscal benefit in near-term (e.g. capital). • Manage size of Contingency Funds and increase Year-End Savings provision. • Manage new investments envelope.

Determining Priority Investments

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.

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.

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

INVESTING IN PEOPLE

Ontario is creating opportunities for people by investing in the development of their talents and skills. The government is helping 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
- Adult Education
- Second Career
- 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 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

STRENGTHENING 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
- Capital
- Hospitals
- Alcohol Strategy
- Supervised Injection Services

INVESTING IN 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
- Labour Peace
- Capital
- Full Day Kindergarten Class Sizes enhancements
- First Nations primary, secondary and post-secondary education
- New OSAP

BUILDING 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 Optimization
- Moving Ontario Forward
- Municipal Projects
- Asset
- Trillium Trust

PROTECTING SOCIAL SERVICES AND IMPROVING THE JUSTICE SYSTEM

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. The government continues to work on improving the criminal justice system to make it faster and fairer while keeping communities safe.

- Social Assistance
- Autism Program
- LTAHS
- Basic Income
- Refugee Integration and Settlement
- Transitioning Adults with Special Needs
- Action Plan for Reconciliation
- Corrections Reform
- New Judge Appointments Court Modernization
- Capital

WORKING WITH OUR PARTNERS

Working with municipal, Indigenous and other government partners across the federation, Ontario has taken action to enhance everyday life, prosperity and competitiveness. Fair and constructive partnerships are key to achieve lasting solutions to the complex challenges facing Canadians.

- Partnerships with municipalities and Indigenous communities (i.e., Gas Tax, Tobacco
- Health Care Funding
- Infrastructure Phase II
- Labour Market Transfers
- Federal – Provincial Fiscal Imbalance

Potential Priority Investments

Potential Signature Investments for 2017 Budget

- More details on Electricity Cost Relief announced in March.
- Child Care Spaces
- Highly-Skilled Workforce/Youth Jobs Strategy
- Health investments, including capital
- Additional Business Growth Initiative investments
- Next Phase of Climate Change Action Plan Strategy Investments for 2017-18

Other key investments could be reserved for future investments, pending available fiscal room – such as in the 2018 Document.

Potential Investments Envelope ($ Billions)	2017-18	2018-19	2019-20
Priority Investments Envelope	0.7	1.0	1.4
Other Document Initiatives Envelope	0.2	0.2	0.2
Total Investments Envelope Above Existing Approvals	**0.9**	**1.2**	**1.6**

Illustrative Scenarios

Developing Fiscal Architecture

- Potential fiscal objectives and foundations for 2017 Document could include:
  - Balanced budgets for 2017-18 to 2019-20
  - Declining net debt-to-GDP ratio over forecast horizon
  - Prudent and trued-up 2017-18 fiscal plan – the first year of the medium-term outlook will have limited time and scope to deliver on new savings and revenue review targets, and the most transparent fiscal year to be reported on.
- Tools and levers should be allocated across both revenue and expense, and all forecast assumptions should be underpinned by detailed plans and processes to support implementation and achievement.

Illustrative Scenario 1

Moderate Increase to Revenue Forecast + Savings Target + Revenue Tools

- This scenario assumes an **aggressive, but defensible revenue forecast**, new revenue tools (including targeted tax measures) as well as, a program review savings target, amounting to fiscal effort of $2.0 billion in 2018-19 and $1.9 billion in 2019-20.

$ Billions	2017-18	2018-19	2019-20	Avg. Ann Growth 2016-17 to 2019-20	Avg. Ann Growth 2017-18 to 2019-20
Current Revenue	**139.5**	**142.0**	**145.6**	**3.0%**	**2.2%**
Incl. High Yield Assumptions	*1.2*	*2.0*	*1.1*		
Aggressive Revenue Forecast	0.2	0.3	1.0		
Targeted Tax Changes	0.4	0.6	0.8		
Revenue Strategy Target		0.2	0.4		
Total Revenue	**140.1**	**143.1**	**147.7**	**3.5%**	**2.7%**
Program Spending – Approved In Principle	**128.6**	**132.8**	**135.5**	**3.2%**	**2.6%**
Incl. Current Contingency Funds	*0.2*	*1.1*	*1.8*		
Incl. Current Year-End Savings	*(1.2)*	*(1.2)*	*(1.1)*		
Program Review Savings Target		(0.5)	(0.5)		
Total Program Spending	**128.6**	**132.3**	**135.0**	**3.1%**	**2.5%**
Current Interest on Debt	11.7	12.5	12.7		
Total Expense	**140.4**	**144.7**	**147.7**	**3.1%**	**2.6%**
Current Reserve	0.7	0.8	1.0		
Planning Surplus/(Deficit) or Fiscal Room/(Hole)	***(1.0)***	***(2.4)***	***(1.0)***		
Fiscal Anchor	–	–	–		

Risks

Revenue Risks:

- ✗ Aggressive LTT assumptions
- ✗ Includes Revenue Strategy Target
- ✗ Mitigates some risk by backing out federal infrastructure funding that is unlikely to materialize

Expense Risk:

- ✗ C-fund and reserves remain low
- ✗ Introduces program review savings target
- ✗ No new spending or Document initiatives

Illustrative Scenario 2

Aggressive Revenue + Investments + Build C-Fund + Aggressive Savings + IOD

- Scenario 2 illustrates, a more **aggressive revenue forecast**, additional savings targets, additional increase to tobacco tax, additional funding for must-do deferred PRRT items, new funding for priority initiatives, a document initiatives envelope, a restored contingency fund for 2017-18,

$ Billions	2017-18	2018-19	2019-20	Avg. Ann Growth 2016-17 to 2019-20	Avg. Ann Growth 2017-18 to 2019-20
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Incl. High Yield Assumptions	*1.2*	*2.0*	*1.1*		
Aggressive Revenue Forecast	0.2	0.3	1.0		
More Aggressive Revenue Forecast	0.3	1.6	2.3		
Targeted Tax Changes	0.4	0.7	1.0		
Revenue Strategy Target		0.4	0.7		
Total Revenue	**140.4**	**145.0**	**150.5**	**4.2%**	**3.5%**
Program Spending – Approved In Principle	**128.6**	**132.8**	**135.5**	**3.2%**	**2.6%**
Incl. Current Contingency Funds	*0.2*	*1.1*	*1.8*		
Incl. Current Year-End Savings	*(1.2)*	*(1.2)*	*(1.1)*		
Rebuild Contingency Fund to $600 million	0.4				
Program Review Savings Target		(1.0)	(1.0)		
Scalable Priority Initiatives	0.7	1.0	1.4		
Document Initiatives Envelope	0.2	0.2	0.2		
Must-Do Deferred Items	0.1	0.0	0.1		
All Other Expense Levers	(0.2)	(0.6)	(0.6)		
Total Program Spending	**129.8**	**132.4**	**135.6**	**3.2%**	**2.2%**
Current Interest on Debt	11.6	12.1	12.3		
Total Expense	**141.4**	**144.5**	**147.9**	**3.2%**	**2.3%**
Current Reserve	0.7	0.8	1.0		
Planning Surplus/(Deficit) or Fiscal Room/(Hole)	***(1.7)***	***(0.3)***	***1.6***		
Fiscal Anchor	**–**	**–**	**–**		

Risks

Revenue Risks:

- **Doubles Revenue Strategy Target**
- **Excludes known IFRS accounting impacts in out-years**
- **Maintains equalization at 2017-18 levels**

Expense Risk:

- **Restores C-fund to $600M in 2017-18**
- **Doubles program review savings target**
- **Assumes Cap & Trade proceeds funds additional in plan items in all years**

Illustrative Balance Scenario

Mix of Tools and Investments to Balance

- Scenario 3, illustrates a mix of potential tools and investments for a balanced budget over the forecast horizon.
- It assumes a more **aggressive revenue forecast**, additional savings targets, new funding for priority initiatives, a lower restored contingency fund for 2017-18, and additional IOD savings.

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Total Revenue	**140.5**	**145.2**	**149.3**	**3.9%**	**3.1%**
Program Spending – Approved In Principle	**128.6**	**132.8**	**135.5**	**3.2%**	**2.6%**
Incl. Current Contingency Funds	*0.2*	*1.1*	*1.8*		
Incl. Current Year-End Savings	*(1.2)*	*(1.2)*	*(1.1)*		
Rebuild Contingency Fund to $400 million	0.2	0.1	0.4		
Program Review Savings Target	(0.3)	(1.0)	(1.0)		
Scalable Priority Initiatives	0.6	1.0	1.4		
Document Initiatives Envelope	0.1	0.2	0.2		
Must-Do Deferred Items			0.1		
All Other Expense Levers	(0.7)	(0.6)	(0.6)		
Total Program Spending	**128.7**	**132.5**	**136.0**	**3.3%**	**2.8%**
Current Interest on Debt	11.4	12.0	12.3		
Total Expense	**140.1**	**144.5**	**148.3**	**3.3%**	**2.9%**
Current Reserve	0.4	0.8	1.0		
Planning Surplus/(Deficit) or Fiscal Room/(Hole)	**–**	**–**	**–**		
Fiscal Anchor	**–**	**–**	**–**		

Risks

Revenue Risks:

- ✗ **Assumes higher H1 share price**
- ✗ **Assumes additional $200M Revenue Strategy Target in 2018-19**
- ✗ **Reverse equalization and infrastructure assumption in 2019-20**

Expense Risk:

- ✗ **$470M in 2017-18 expense is managed**
- ✗ **Scales back funding for new initiatives and must-do deferred**
- ✗ **Reduced c-fund in 2017-18 and reserve in 2017-18 and 2018-19**

Illustrative Fiscal Gap Remaining

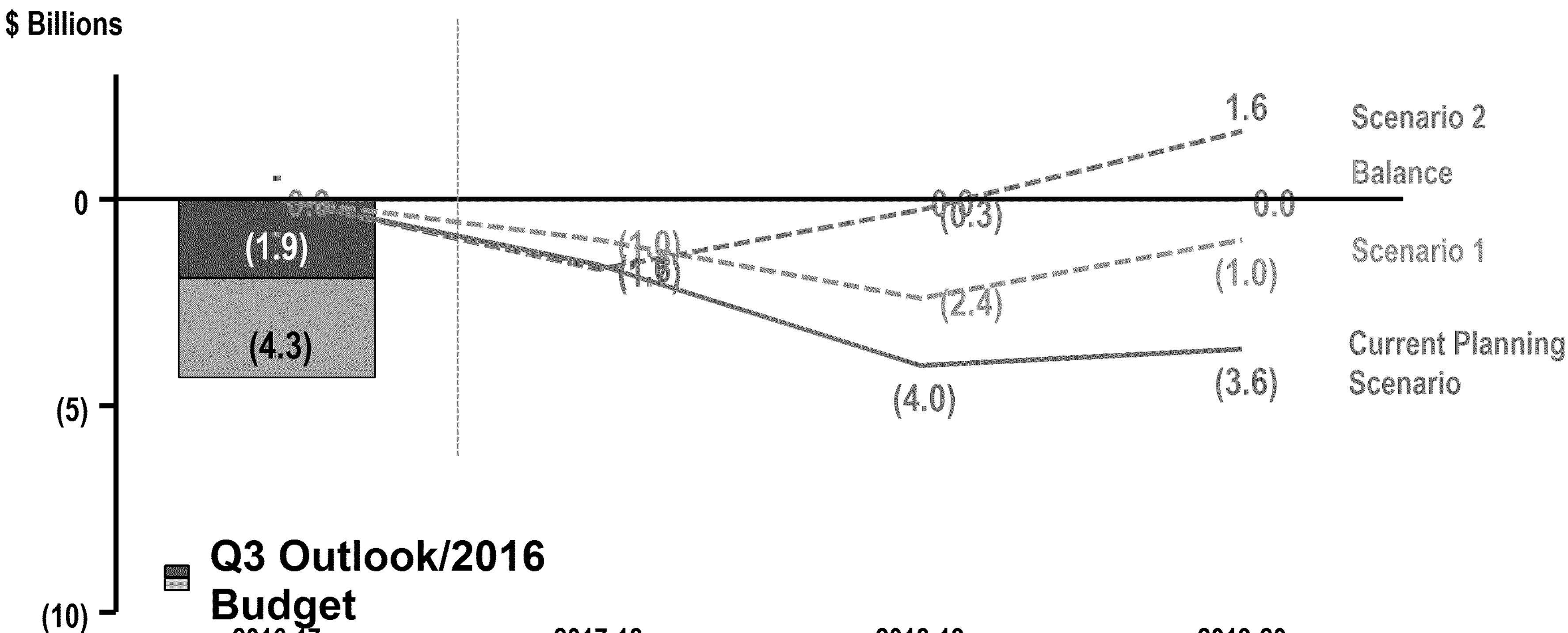
- The **current planning (base) scenario represents a risk-balanced forecast** and results in a fiscal gap growing to $3.6 billion by 2019-20.
- The illustrative scenarios build in a **moderate** and **aggressive** amount of risk, respectively.
- Depending on how much forecasting risk is taken on, the government can approach balance or generate fiscal room.

Risk Assessment

High Risk

- Scenario 2
- Balance
- Scenario 1
- Current

Low Risk



Other Factors That Could Further Impact the Gap

Revenue

- Revisions to economic data and outlook
- Potential revisions to cap-and-trade proceeds based on auction results in 2017
- Adjustments to the government's asset optimization strategy
- Ongoing tax receipts from provincially administered taxes
- Revised revenue outlooks from ministries, agencies and government business enterprises (e.g., lower OLG revenues)
- Implications of Federal Budget
- Non-tax revenue updates

Expense

- Labour settlements
- OMA Mandate Impact
- Reverse MOHLTC Savings Target (OMA)
- Alignment of climate change investments with available proceeds
- Impact of expense pressures that ministries have been asked to manage
- Revised expense outlooks from agencies, and government business enterprises
- Contaminated Sites and Grassy Narrows

Accounting risks:

- 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
- Build up the contingency funds further to accommodate expense risks and pressures

Potential improvement to gap

Potential improvement or deterioration to gap

Potential deterioration to gap

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 2018 Document.

Appendix

Potential Revenue Tools

A number of revenue tools could be considered as part of the strategy required to close the fiscal gap.

Potential 2017 Document Revenue Measures

- Increases to **tobacco and beer** tax revenue of up to $0.1 billion each year between 2017-18 and 2019-20
- Increasing the **insurance premium tax** by 1 percentage point, which could generate up to $0.3 billion in 2017-18, and up to $0.4 billion by 2019-20
- Increase planned **education property tax** adjustment from 1% to 2% annually, which could generate up to $0.1 billion in 2017-18. If this was extended to 2019-20, it could generate up to $0.3 billion
- Use a greater proportion of **Cap and Trade proceeds** against in-plan GHG reduction expenditures (e.g., revisit $0.6 billion for in-plan initiatives in 2018-19 and 2019-20)
- Lobby the federal government to **remove preferential tax treatment for businesses** that benefit from a 50% income tax deduction on expenses related to meals and entertainment. This could generate $0.2 billion in 2017-18, and up to $0.3 billion by 2019-20
- Approach other provinces to create consensus for **pressing the federal government on sharing tax revenue** from certain income tax measures that have a substantial provincial connection (e.g. tax on disposition of certain properties by a non-resident)
- As part of an integrated strategy on revenue integrity, the province will undertake a thorough policy and legislative review of all taxes, including those shared with the federal government, to eliminate loopholes and ensure fairness for all taxpayers. The Province will also move forward to strengthen administration of existing laws, through public education and increased enforcement, enhanced partnerships with the Canada Revenue Agency and strengthening Ontario's ability to address underground economy activity through information sharing legislation.

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.

Revisiting Prudence

- The fiscal plan historically includes various sources of prudence to protect the Province's overall fiscal performance against the impact of unexpected changes in the economic, revenue and expense outlooks.
- The overall, and specific sources, of prudence across the fiscal could be "re-balanced" and re-set in order to help free up fiscal room.
- However, some forms of prudence are more explicit than others – and the reduction of such elements of prudence may undermine the credibility of the fiscal plan.
- Key sources of prudence to review include:
  - The **reserve** (*required by the Fiscal Transparency and Accountability Act, 2004*) is included on top of fiscal outcome projected by the revenue and total expense outlooks (i.e. added to the deficit).
  - The **Contingency Fund**, which is included in the program spending outlook on a multi-year basis (however only explicitly published for plan year). The Contingency Fund is often set as a combination of expense pressures expected to materialize and notionally set aside (i.e. future compensation), as well as an unallocated portion in order to be available for other unknown pressures (i.e. extra forest firefighting, disaster relief, etc.
  - The **economic forecast** used for planning purposes, is set slightly below the private sector average.
  - The **interest on debt expense forecast** incorporates higher interest rate assumptions in the out-years.

Federal Revenue Strategy

- The current revenue outlook continues to assume additional revenue for home care, labour market, and infrastructure – that will be unconditional in nature (i.e. support in-plan spending, no incrementality).
- While Ontario and the federal government have signed agreements in a number of areas, there are additional opportunities to maximize new federal funding, minimize the negative impact of conditions on new programs, and leverage federal investment to support provincially-planned programs.
- The lead-up and delivery of the 2017 Federal Budget, expected in the coming weeks, provides an important opportunity to assert Ontario's expectations around federal revenue.

Program Area	Example
Federal health funding	Continue to work on adequate, sustainable and principled health funding, or use approach to federal offer as leverage for success in other areas.
Equalization program	**Defensive tactic:** ensure GDP constraint acts as a 'top-up' as currently described in legislation **Offensive tactic:** push for 'protection' from year-over-year declines in transfer entitlements.
Climate change funding	With the release of the Pan-Canadian Framework on Climate Change, the federal government will likely begin funding through new environmental programs, including the Low Carbon Economy Fund.
Early learning and child care	Work to ensure National Framework and bilateral agreements provide Ontario flexibility to direct federal funding to in-plan expenditures and support Provincial priority areas.
Infrastructure	Ontario continues to work with the federal government on the next phase of its infrastructure plan, including limiting the federal government's use of incrementality provisions.
Indigenous files	Maximize opportunities to leverage historic $8.4 billion planned federal spending, both to make Ontario's planned investments (health, TRC response, anti-violence) go further and reduce downstream costs associated with inaction/failure to address root causes.
Innovation Agenda	Ontario will likely have a number of programs that are aligned with the Innovation Agenda, and should look for opportunities to leverage funding to provincial priorities.

To be updated

Details of Other Factors that Could Impact the Gap

Other Potential Changes ($ Millions)	2017-18	2018-19	2019-20
Lower OPG Revenues	(173)	(42)	84
Preliminary Pension Forecast Update	420	450	170
Potential OMA Mandate	217	396	522
Reverse MOHLTC Savings Target (OMA)	160	220	200
Remaining Scalable Initiatives	174	452	453
PIT Tax Planning Risk	(350)	(350)	(350)
Total Other Potential Changes	**448**	**1,127**	**1,099**