Ontario's Third Quarter Finances: Approach and Fiscal Outlook

Office of the Budget
MINISTRY of FINANCE

Presentation to MM+P on February 9, 2017

Preliminary Draft

Draft – February 06, 2017 9:45 PM

Context

Under the *Fiscal Transparency and Accountability Act, 2004* (FTAA), the Third Quarter Finances is required to:

- Be released **on or before February 15th** (publication can be delayed if a letter is sent to the Clerk of the Legislative Assembly advising of the delay and explaining the reason).
- Include updated information about the major components of revenue and expense **for the current fiscal year only.**

Alignment with Pension Asset Expert Advisory Panel

- The Pension Asset Expert Advisory Panel is expected to release its findings on February 13, 2017.
- Releasing Third Quarter Finances a week later, **on February 21, 2017**, provides the government with an immediate opportunity to align its fiscal strategy with recommendations of the panel, and frame the fiscal plan narrative in advance of the 2017 Document.
- It is proposed that **a letter be sent to the Clerk** to coincide with the date of release of the Pension Panel's Report, advising that the Third Quarter Finances will be delayed in order to reflect the Panel's recommendations.

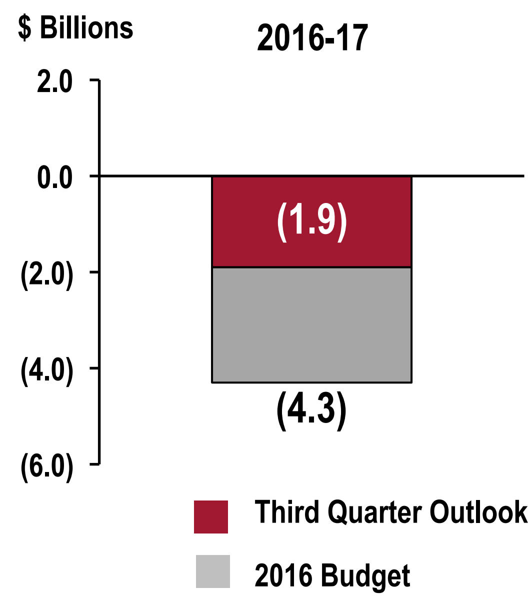
Proposed 2016-17 Third Quarter Outlook

It is recommended that the Q3 Finances present a deficit projection of $1.9 billion, a $2.4 billion improvement over the 2016 Budget.

While the Q3 Finances will report all changes relative to the 2016 Budget projection, key changes since FES will include:

- Reversing $2.2 billion of the Pension Adjustment;
- Reprofiling $0.5 billion in proceeds from the first Cap and Trade Auction from 2016-17 to 2017-18;
- Additional HST and other tax revenue of $0.9 billion; and
- Additional expense of $0.2 billion, mainly to recognize health pressures.

Third Quarter Fiscal Outlook



Narrative:

- *The government is projecting a* ***deficit of $1.9 billion in 2016-17****, an improvement of $2.4 billion since the 2016 Budget.*
- *The strength of Ontario's economy, together with the government's approach to fiscal management, is supporting strategic investments such as funding for health, while allowing the government to continue to project it will beat its fiscal targets.*
- *The government is projecting a net debt-to-GDP ratio of 38.3 per cent for 2016-17, an improvement from the 2016 Budget projection of 39.6 per cent.*

$ Billions	Budget 2016-17	Change	Outlook 2016-17
Revenue	**130.6**	***2.5***	**133.1**
Expense			
Programs	122.1	*1.1*	123.3
Interest on Debt	11.8	*(0.4)*	11.4
Total Expense	**133.9**	***0.7***	**134.6**
Surplus/(Deficit) Before Reserve	**(3.3)**	***1.8***	**(1.5)**
Reserve	1.0	*(0.6)*	0.4
Surplus/(Deficit)	**(4.3)**	***2.4***	**(1.9)**
Net Debt-to-GDP (Per Cent)	**39.6**	***(1.3)***	**38.3**{ # }

Outstanding Information

- **Outstanding Information** could materially impact the **2016-17 outlook** in advance of the 2017 Document.

Revenue	Expense
Revisions to economic outlook	Ministry Q3/interim submissions
Ongoing provincially-administered tax receipts	Consolidations and other technical adjustments
Non-tax revenue updates from Ministry PRRT submissions	Interest on debt forecast updates
Net income updates from government business enterprises	Contaminated sites liabilities
Revisions to IFRS - US GAAP impacts for OPG and Hydro One	Updated pension expense forecast

Potential improvement to gap

Potential improvement or deterioration to gap

Potential deterioration to gap

Appendix

Evolution of the 2016-17 Outlook

- The Third Quarter Finances will present a fiscal update relative to the 2016 Budget and address changes since FES in narrative only.
- The 2016 FES highlighted Ontario's stronger economy and the government's approach to fiscal management, which supported strategic investments in new child care spaces, hospitals and electricity cost relief for consumers.
- To support these investments while accommodating the Pension Adjustment, the government took on a number of fiscal tools in order to meet its targets.

2016 Budget Fiscal Plan $ Billions	2016-17	Change to FES 2016-17	FES Outlook 2016-17
Revenue	**130.6**	***2.1***	**132.7**
Expense			
Programs	122.1	*3.1*	125.3
Interest on Debt	11.8	*(0.4)*	11.4
Total Expense	**133.9**	***2.7***	**136.6**
Surplus/(Deficit) Before Reserve	**(3.3)**	***(0.6)***	**(3.9)**
Reserve	1.0	*(0.6)*	0.4
Surplus/(Deficit)	**(4.3)**	***(0.0)***	**(4.3)**

Total revenue changes of $2.1 billion, consisting of:

- Base Forecast Change $1.0 billion
- Reversal of Homecare $(0.2) billion
- Federal Agreements $0.4 billion
- Higher assumed revenue to accommodate pensions $0.9 billion

Total expense changes of $2.7 billion, consisting of:

- In-Year Approvals $0.2 billion
- Pension Adjustment of $2.2 billion
- Electricity Cost Relief $0.3 billion
- Support for Hospitals $0.1 billion
- Green Investment Fund $0.3 billion
- New Federal Agreements $0.4 billion
- Contingency Fund Offsets $(0.5) billion
- Interest on Debt Savings $(0.4) billion

Change to the Reserve $(0.6) billion

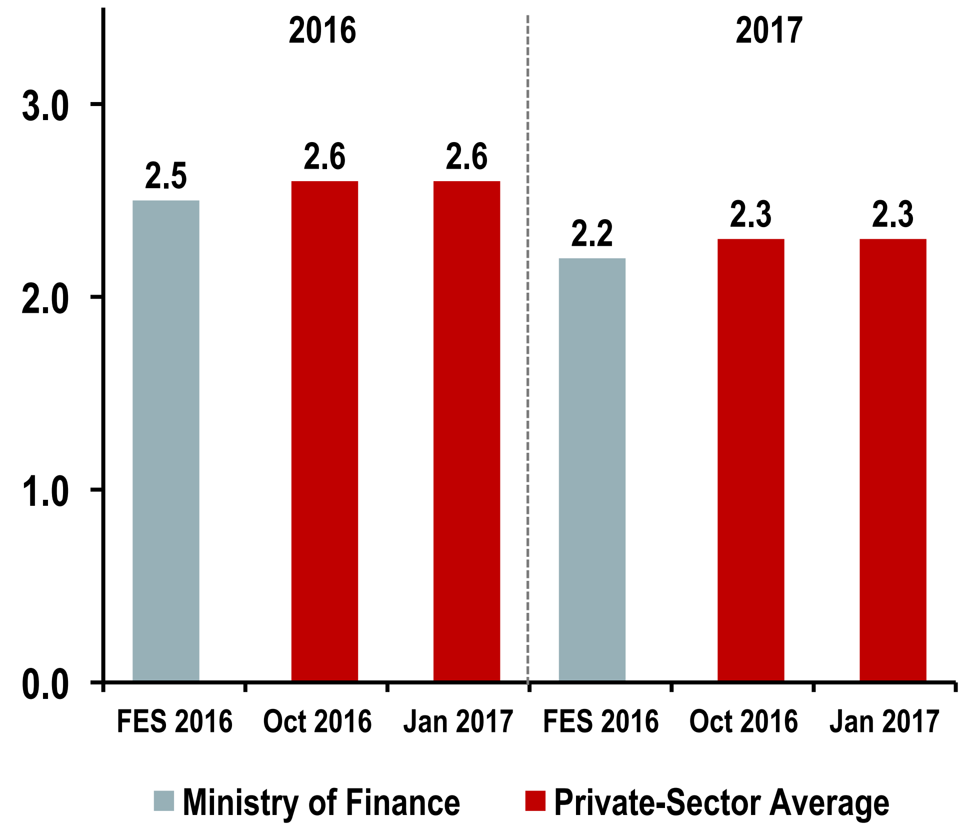
Recent Economic Developments and Outlook

Economic Update

- Real GDP increased by 0.7% in the third quarter (July to September) of 2016, after rising 0.2% in the second quarter.
  - Higher exports and continued growth in household spending were the primary drivers of growth
- Information available so far for the fourth quarter (October to December) of 2016 suggest growth at a more modest pace.
- Ontario's economic growth outlook remains consistent with the 2016 FES forecast

Ontario Real GDP Growth Outlook

Per cent change



Program Expense Changes to Highlight

$ Millions	2016-17	
Program Expense Changes since the 2016 FES		
MOHLTC Pausing planned increases to drug cost contributions*	106.0	*(pressure with no offset)*
MOHLTC Stem Cells and other priorities	95.4	*(pressure with no offset)*
MCYS: First Nations Prevention Services support	5.8	*(federal flow-through)*
MAG/MCSCS: Corrections Reform	10.4	*(offset from contingency fund)*
MCSCS: First Nations Policing Wage Parity	6.5	*(offset from contingency fund)*
Cabinet Office: International Disaster Relief Program – Haiti	0.3	*(offset from contingency fund)*
Contingency fund	(17.2)	
Program Expense Changes since the 2016	**207.2**	

* Alternatively, Social Assistance pressures of similar magnitude could be reported