2015–16 PUBLIC ACCOUNTS

~~[DRAFT FOR DISCUSSION ONLY]~~

~~Version 16_September 13~~

Legislated; No Restatement to 2014-15

Greg Orencsak
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Ontario

The Honourable Elizabeth Dowdeswell, OC, OOnt
Lieutenant Governor of Ontario
Legislative Building
Queen's Park
Toronto, ON M7A 1A1

May It Please Your Honour:

The undersigned have the privilege to present the Public Accounts of the Province of Ontario for the fiscal year ended March 31, 2016, in accordance with the requirements of the *Financial Administration Act.*

Respectfully submitted,

The Honourable Liz Sandals
President of the Treasury Board
Toronto, September 2016

The Honourable Charles Sousa
Minister of Finance
Toronto, September 2016

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CONSOLIDATED FINANCIAL STATEMENTS

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Foreword

Each year, the ~~government~~Province releases the Public Accounts to update Ontarians on our —end-of-year financial position.- The Annual Report that accompanies the financial statements provides transparency and accountability for the dollars we spend. ~~In preparing the Annual Report, the government makes every effort to ensure that we are providing a faithful and consistent representation of the government's financial activities.~~

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Ontario is a recognized leader in financial reporting. The C.D. Howe Institute, an independent research organization that focuses on support for economically sound public policy practices, has acknowledged the consistent basis used by Ontario for our Budget, Estimates and Public Accounts as a best practice for supporting transparency and accountability.

I am pleased to present the Public Accounts for the year 2015–16, which confirm that our government's plan to achieve fiscal balance by 2017–18 is working.

At $~~3.~~5.0 billion, Ontario's deficit is $3.5~~.0~~ billion lower-_than-_projected in the 2015 Budget. This marks the seventh year in a row that Ontario has beaten its deficit target, resulting in an accumulated deficit that is ~~more than $30~~approximately $20 billion lower-_than-projected. ~~These results have lowered~~increased the 2015–16 net debt-to-GDP ~~ratio to 39.4%, less~~40.9 per cent, higher than the 39.8~~%~~ per cent ~~forecast in the 2015 Budget~~, which ~~is impacted~~ a change in accounting for the pension plans ~~jointly sponsored by the Province. Note~~ 18 to the Consolidated ~~Financial Statements provides more information~~ on this~~ change.~~

X

When the global economic recession hit, our government made a deliberate choice to invest in our economy and stimulate growth. Since then, Ontario has created -almost 600,000 net new jobs and the unemployment rate declined to an eight-year low of 6.4 per cent in July 2016. Ontario's economy continues to grow and is expected to remain one of the fastest-growing in Canada over the next two years.

~~Though~~Although we have made considerable progress since the recession, there is still hard work ahead to eliminate the deficit. Our government will make the tough but necessary decisions needed to ensure our province continues to grow. As President of the Treasury Board, it is my role to lead this effort and to help create a modern and open government — one that is fiscally responsible, uses evidence to track performance and is focused on results.

In the spirit of openness and increased transparency, this year we have ~~built~~created new visualization tools to ~~assist~~help Ontarians understand the ~~public in understanding Ontario's~~Province's finances. To access ~~those~~these new tools, and to see the full Public Accounts online, visit Ontario.ca/publicaccounts.

Making every dollar count

In 2014, we implemented a new fiscal planning and expenditure management approach. Through the Program Review, Renewal, and Transformation (PRRT) process, we are looking across ministries to achieve better value for money.

By prioritizing cross-ministry collaboration in our planning and policy development, we are undertaking major transformation and efficiency initiatives that will help ~~to~~ free up resources and allow us to invest in key priorities. This means asking tough questions and making tough choices about services that are not linked to government priorities, serve no clear public interest~~,~~ or fail to achieve their desired outcomes.

For example, transfer payments to organizations including consolidated broader public sector organizations that deliver services on behalf of the ~~province~~Province account for approximately 82 per cent of the government's expenditures. The Transfer Payment Administration Modernization (TPAM) project will streamline government transfers to hospitals, school boards, municipalities, non-profits~~,~~ and all other transfer payment recipients. It will not only improve the way we work with these organizations, but will also make their jobs easier by reducing their administrative burdens. TPAM will also help us get better value for our money by emphasizing data and evidence when ~~reaching~~making funding decisions.

Making services simpler, faster and easier

~~Similarly, through~~Through Ontario's Digital Government strategy, we are modernizing government for the digital age, ~~making~~using technology to make services simpler, easier and more convenient for people~~ using technology~~. This work will improve citizens' online experience with government and deliver better value for public money.

We are also finding innovative ways to support how we drive change across the government. In 2015, we established the Centre of Excellence for Evidence-Based Decision Making. The ~~Centre~~centre is setting standards for the use of evidence.- Its mandate is to build capacity to assess program performance, using evidence to inform choices and lead change in critical public services.

We have deliberately taken a fair and equitable approach, allowing us to continue to make strategic investments in physical infrastructure ~~like~~such as roads and transit, as well as in social capital through the talents and skills of Ontarians, all while protecting the services on which Ontarians rely.

Modern infrastructure and a dynamic business climate

Ontario must build and maintain its infrastructure to remain economically strong and competitive.

~~Ontario~~The Province is continuing to pursue opportunities to unlock economic value from its assets. Unlocking- value from provincial assets is providing resources to invest in new transit and transportation infrastructure, and is helping to expand the economy and improve competitiveness and productivity. In short, it will help to create jobs for Ontarians.

We're investing more than $137 billion over the next 10 years~~,~~ in public infrastructure such as roads, bridges, public transit, hospitals~~,~~ and schools. This investment builds on previous commitments, resulting in ~~about~~a total of approximately $160 billion ~~to~~in public infrastructure investments over ––12 years, starting in 2014–15. This is the largest investment in public infrastructure in the ~~province's~~Province's history. Planned investments ~~would~~will support more than 110,000 jobs, on average, each year.

The government is building the infrastructure that is needed today and tomorrow. These investments will help manage congestion, connect people and improve the economy and Ontarians' quality of life.

In addition, our government continues to create a dynamic and innovative business climate.

As of August 31, 2016, the 10-year, $2.7 billion Jobs and Prosperity Fund is helping to create and retain more than 22,000 jobs and is attracting more than $2.2 billion in investments. Our government is reducing business costs, keeping tax rates competitive, building strategic partnerships, helping businesses go global, strengthening the financial services sector and investing in training and education.

We have an ambitious agenda to Build Ontario Up. Our balanced budget plan is vitally important, and Public Accounts is the tool by which we report our progress. Eliminating the deficit and taking a balanced and disciplined approach to our fiscal plan over the last three and a half years~~ to our fiscal plan~~ has allowed us to deliver better services and outcomes to Ontarians, and help people in their everyday lives. We are striving to build a province that is the best place to live, from childhood to retirement — a place where everyone has the opportunity to realize their full potential.

The Honourable Liz Sandals
President of the Treasury Board

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Introduction

The Annual Report is a key element of the Public Accounts of the Province of Ontario and is central to demonstrating the Province's transparency and accountability in reporting its financial activities and position ~~as well as the government's accountability for~~. Ontario's consolidated financial ~~resources~~statements present the financial results for the 2015–16 fiscal year against the 2015 Budget approved in April 2015 and the financial position of the government as at March 31, 2016.

~~This Annual Report presents Ontario's~~The preparation of financial ~~results and position for~~ statements requires the ~~year ending March 31, 2016, against~~Province to make estimates and assumptions that could materially affect the ~~approved 2015 Budget. Specifically, it compares~~ amounts of assets, liabilities, revenues and expenses reported in the Province's ~~actual financial results for~~ books. One area of significant complexity is accounting for pensions and other employee future benefits.

Undo (go back to original)

In preparing the 2015–16 ~~fiscal year to~~ Public Accounts, a decision was made to legislate the ~~Budget plan presented in April 2015 and explains major variances~~government's accounting policy for pension assets, which resulted in an increase in net debt and accumulated deficit of $10.7 billion, including an increase of $1.5 billion to the reported annual deficit for 2015-16. Note 18 to the Consolidated Financial Statements includes additional information regarding this change.

This year, in addition to providing a comparison of actual to planned results, the Annual Report has been enhanced in several areas to further support transparency and accountability for readers:

- It expands the comparison of the current year's results to those of the prior year, and includes analysis of the trends over a five-year period as related to several financial items, including an expanded discussion on balance sheet items.
- It provides a description of the Province's capital assets, reflecting their importance in service delivery and their impact on the Province's financial condition.
- ~~Includes~~It includes a discussion of key risks that could impact the Province's financial results.

As in previous years, the Annual Report sets out and analyzes trends in a number of key financial ratios over the past several years.

The additional discussion and analysis included in this year's Annual Report will help users of the Consolidated Financial Statements better understand the impacts of economic conditions and government decisions on the Province's financial results and position.

Producing the Public Accounts of Ontario requires the teamwork and collaboration of many stakeholders across Ontario's public sector. The Office of the Auditor General plays a critical role in auditing and reporting on the Province's financial statements, and the Standing Committee on the Public Accounts also plays an important role in providing legislative oversight and guidance. I would like to thank everyone for their contributions.

We welcome your comments on the Public Accounts. Please share your thoughts by email at infoTBS@ontario.ca, or by writing to the Office of the Provincial Controller, Re: Annual Report, Treasury Board Secretariat, Second Floor, Frost Building South, 7 Queen's Park Crescent, Toronto, Ontario -M7A 1Y7.

Nadine Petsche, MBA, CPA, CA
~~Acting Assistant Deputy Minister and Provincial Controller~~
Director, Accounting Policy and Financial Reporting
Treasury Board Secretariat

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Guide to the Public Accounts

The Public Accounts of the Province of Ontario comprise this Annual Report and three supporting volumes.

The Annual Report includes a Financial Statement Discussion and Analysis, the Consolidated Financial Statements of the Province and other supporting schedules and ~~documents~~disclosures.

Financial Statement Discussion and Analysis

The first section of the Annual Report is the Financial Statement Discussion and Analysis ~~forms the first~~ section ~~of the Annual Report. It~~, which:

- Compares the Province's financial results~~, as set out in the Consolidated Financial Statements,~~ to both the approved Budget for the year and results for the previous year;
- Shows trends in key financial items and indicators of financial condition;
- Sets out key potential risks to financial results and explains how the government manages them;
- Includes descriptions of various assets and liabilities on the statement of financial position; and
- Presents non-financial activities results and discusses ~~various~~ important initiatives related to enhancing transparency and accountability.

The Consolidated Financial Statements

The Consolidated Financial Statements show the Province's financial position at the end of the previous fiscal year, its financial activities during the ~~year~~reporting period and its financial position at the end of the ~~year as a result of those activities~~fiscal year. The statements are linked, and figures that appear in one statement may affect another.

The Province's financial statements are presented on a consolidated basis, meaning that the Province's statement of financial position and statement of operations reflect the combination of ministry results as well as financial results for entities that are controlled by the government. Therefore, reported revenues and expenses of the Province can be affected directly by the activities of ministries as well as the performance of controlled entities such as government business enterprises (GBEs) and broader public sector (BPS) organizations ~~like~~such as hospitals, school boards and colleges. In addition, the Province's results are also affected by transfer payments made to non-consolidated entities such as municipalities and universities.

The financial statements comprise:

- The Consolidated Statement of Operations, which provides a summary of the government's revenue for the period less its expenses, and shows whether the government incurred an operating deficit or surplus for the year, in comparison to its approved Budget plan as presented on April 23, 2015, as well as the financial results for the prior fiscal period. The annual surplus/deficit has an impact on the Province's financial position ~~that is reflected in other financial statements~~.

- The Consolidated Statement of Financial Position~~, which~~ reports the Province's assets and liabilities~~; this~~ and is also known as the balance sheet. The Province's total liabilities include debt and other long-term financing. Financial assets include cash, short-term investments and investment in GBEs. The difference between total liabilities and financial assets is the Province's net debt~~. Net debt~~ which provides a measure of the future government revenues that will be required to pay for the government's past transactions. Non-financial assets, mainly tangible capital assets such as highways, bridges and buildings, are subtracted from net debt to arrive at the accumulated deficit. An operating deficit in the year increases the accumulated deficit.

- The Consolidated Statement of Change in Net Debt shows how the Province's net debt position changed during the year. The main factors increasing net debt are the annual deficit and additions to tangible capital assets, which increase liabilities.

- The Consolidated Statement of Change in Accumulated Deficit is a cumulative total of all the Province's annual deficits and surpluses to date. It is mainly impacted by the annual surplus or deficit in a year.

- The Consolidated Statement of Cash Flow shows the sources and uses of cash and cash equivalents over the year. Two major sources of cash are revenues and borrowings. Uses of cash include funding for operating costs, investments in capital assets and debt repayment. The statement of cash flows is presented in what is referred to as the indirect method, meaning that it starts with the annual surplus or deficit and reconciles that to the cash flow from operations by adding or subtracting non-cash items such as amortization of tangible capital assets. As well, it also shows cash used to acquire tangible capital assets, and investments as well as cash generated from financing activities.

When reading the Consolidated Financial Statements, it is essential to also read the accompanying notes and schedules, which summarize the Province's significant accounting policies and give more information on underlying financial activities, ~~the~~ market value of investments, contractual obligations and risks. Commentary is also provided on possible future changes to accounting standards.

Other elements of the Annual Report

- In management's Statement of Responsibility, the government acknowledges its responsibility for the Consolidated Financial Statements and the Financial Statement Discussion and Analysis. The Statement, which appears on page ~~[XX],~~6, outlines the accounting policies and practices used in preparing the financial statements and acknowledges the government's responsibility for financial management systems and controls. Check

- The Auditor General's Report, which appears on page ~~[XX],~~45, expresses an opinion under the *Auditor General Act* as to whether the statements present fairly the annual financial results and financial position of the government in accordance with Canadian Public Sector Accounting Standards.

Supporting volumes

Volume 1 contains ministry statements and detailed schedules of debt and other items. Individual ministry statements compare actual expenses to the amounts appropriated by the Legislative Assembly. Appropriations are made through the Estimates, Supplementary Estimates and annual *Supply Act* (as modified by any Treasury Board Orders), other statutes and any special warrants. The ministry statements include amounts appropriated to fund certain provincial organizations, including hospitals, school boards and colleges. The financial results of all provincial organizations included in the government reporting entity in accordance with Public Sector Accounting Standards are consolidated with those of the Province to produce the Consolidated Financial Statements in accordance with the accounting policies described in Note 1 to the statements.

Volume 2 contains the individual financial statements of significant provincial corporations, boards and commissions that are part of the government's reporting entity, as well as other miscellaneous financial statements.

Volume 3 contains the details of payments made by ministries to vendors (including sales tax) and transfer payment recipients that exceed certain thresholds, including payments to suppliers of temporary help services; payments made directly to a supplier by the ministry for employee benefits; travel payments for employees; total payments for grants, subsidies or assistance to persons, businesses, non-commercial institutions and other government bodies; other payments to suppliers of goods and services; and statutory payments.

In preparing the 2015-16 Public Accounts, the government legislated the accounting treatment for pension assets of its jointly sponsored pension plans. Note 18 to the Consolidated Financial Statements includes additional information regarding this change.

Statement of Responsibility

The Consolidated Financial Statements are prepared by the Government of Ontario in accordance with legislation and the accounting principles for governments recommended by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada (CPA Canada).

The government accepts responsibility for the objectivity and integrity of these Consolidated Financial Statements and the Financial Statement Discussion and Analysis.

The government is also responsible for maintaining systems of financial management and internal control to provide reasonable assurance that transactions recorded in the Consolidated Financial Statements are within statutory authority, assets are properly safeguarded and reliable financial information is available for preparation of these Consolidated Financial Statements.

The Consolidated Financial Statements have been audited by the Auditor General of Ontario in accordance with the *Auditor General Act* and Canadian Auditing Standards. Her report appears on page ~~[XX]~~45 of this document.

Scott Thompson Deputy Minister Ministry of Finance	Greg Orencsak Deputy Minister, Treasury Board Secretariat and Secretary of Treasury Board and Management Board of Cabinet	Nadine Petsche ~~Acting Assistant Deputy Minister~~Director, Accounting Policy and ~~Provincial Controller~~Financial Reporting Treasury Board Secretariat
~~[date]~~September xx, 2016	~~[date]~~September xx, 2016	~~[date]~~September xx, 2016

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FINANCIAL STATEMENT DISCUSSION AND ANALYSIS

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Highlights

2015–16 Financial Highlights ($ Billions)					Table 1

Consolidated Statement of Operations For the fiscal year ended March 31	2015 Budget	2015–16 Actual	2014–15 Actual	Change from 2015 Budget	Change from 2014–15 Actual
Total Revenue	**124.4**	**128.4**	**118.5**	**4.0**	**9.8**
Expense					
Programs	120.5	~~120.9~~122.4	118.2	~~0.4~~1.9	4.2~~.7~~
Interest on debt	11.4	11.0	10.6	(0.4)	0.4
Total Expense	**131.9**	**~~131.9~~133.4**	**128.8**	-1.5	~~3.1~~4.6
Reserve	1.0	-	-	(1.0)	
Annual Deficit	**(8.5)**	**(~~3.~~5.0)**	**(10.3)**	**(3.5~~.0~~)**	**(~~6.8~~5.3)**

not a negative #

Consolidated Statement of Financial Position As at March 31		2015–16 Actual	2014–15 Actual		Change from 2014–15 Actual
Financial Assets		83.5	82.5		1.0
Liabilities		~~378.0~~ 388.7	367.1		~~11.0~~21.6
Net Debt		**(~~294.6~~305.2)**	**(284.6)**		**~~10.0~~20.6**
Non-Financial Assets		102.5	97.1		5.4
Accumulated Deficit		**(~~192.1~~202.7)**	**(187.5)**		**~~4.6~~15.2**

Note: Numbers may not add due to rounding.

Comparison to the 2015 Budget plan

The Province of Ontario recorded a deficit of $~~3.~~5.0 billion for the 2015–16 fiscal year, an improvement of $3.5~~.0~~ billion from the $8.5 billion ~~projection~~projected in the 2015 Budget plan (see Table 1).

The improvement over plan was due to revenues that were $4.0 billion above forecast, at $128.4 billion. This was largely due to higher-than-expected taxation revenues and net revenues from the first phase of broadening Hydro One ownership.

Despite the challenges stemming from an uncertain global economic setting, Ontario's economy grew, with real gross domestic product (GDP) increasing by 2.6 per cent in 2015, slightly below the forecast of 2.7 per cent in the 2015 Budget.

Total spending for 2015–16 came in at $~~131.9~~133.4 billion, which was ~~consistent with~~$1.5 billion higher than forecast in the 2015 Budget plan. This increase from plan was due mainly to the change in the Province's accounting treatment for accrued pension assets related to jointly sponsored pension plans, as explained in Note 18 to the Consolidated Financial Statements.

The government identified and acted on a number of initiatives in the 2015 Budget to modernize public services, improve outcomes for Ontarians and support the Province's fiscal objectives. Savings from these and other initiatives identified through Program Review, Renewal and Transformation (PRRT) are reflected in all of the program expense lines in the 2015–16 results.

Comparison to the 2014–15 fiscal year

Provincial revenues were up $9.8 billion, or 8.3 per cent, from the previous year (see Table 1). This increase was due in part to nominal GDP growth of 3.5 per cent, which contributed to higher taxation revenues. Higher transfers from the federal government, particularly Canada Health Transfer, Canada Social Transfer and Equalization payments, also increased revenues.

Also contributing to year-over-year revenue growth was the completion of the first phase of Hydro One share sales in 2015–16 through an initial public offering (IPO). This transaction and its fiscal impacts are discussed in more detail in "Broadening Hydro One ownership" on page ~~xx~~14.

Year-over-year, total spending rose by $~~3.1~~4.6 billion, or ~~2.4~~3.5 per cent, going from $128.8 billion to $~~131.9~~133.4 billion. Increases in the health care, children's and social services, and justice sectors ~~and~~, as well as other program areas, accounted for most of the increase. Interest on debt rose by 3.1 per cent, from $10.6 billion to $11.0 billion, reflecting financing costs for the Province's debt. In addition, the change in the Province's accounting treatment for pension assets accounted for $1.5 billion toward the year-over-year variance.

As a result of stronger relative growth in revenue than in spending, the annual deficit fell from $10.3 billion in 2014–15 to $~~3.~~5.0 billion in 2015–16, reflecting an improvement of ~~65.9~~
51.2 per cent.

~~The~~ As at April 1, 2015, the Province's opening pension asset balance was adjusted to reflect a ~~legislated~~ change in accounting for pension assets related to jointly sponsored pension plans. As a result, net debt~~,~~ — the difference between ~~its~~the Province's liabilities and ~~its~~ financial assets~~,~~ — grew by $~~10.0~~20.6 billion during the year~~, representing~~. This growth was due to a $~~11.0~~10.9 billion increase in liabilities ~~that~~and a $10.7 billion pension accounting adjustment (see Note 18 to the Consolidated Financial Statements) which was partially offset by a $1.0 billion increase in financial assets.

Hoatrens

The net book value of capital assets such as roads and bridges owned by the Province grew by $5.4 billion during the year, reflecting new capital investments. The accumulated deficit rose by $~~4.~~6.1 billion, mainly as a result of the annual deficit of $~~3.~~5.0 billion and other adjustments.

Cash flow during the year was used to fund the annual deficit of $~~3.~~5.0 billion, provide $10.9 billion for investment in capital assets, repay maturing debt of $21.9 billion and cover other cash items. These needs were partly covered with funds borrowed before the end of 2014–15, including pre-borrowing for 2015–16, for a total of $12.4 billion in new financing.

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Analysis of 2015–16 Results

Details of 2015–16 Actual Results[1] ($ Billions)					Table 2
				Change from	
	2015 Budget	2015–16 Actual	2014–15 Actual	2015 Budget	2014–15 Actual
Revenue					
Taxation	87.4	91.8	82.3	4.4	9.5
Government of Canada	22.9	22.9	21.6	-	1.2
Income from government business enterprises	4.8	4.9	5.6	0.1	(0.7)
Other non-tax revenue	9.3	8.8	9.0	(0.5)	(0.2)
Total Revenue	**124.4**	**128.4**	**118.5**	**4.0**	**9.8**
Expense					
Health sector	50.8	51.1	50.0	0.3	1.1
Education sector[2]	25.2	25.0	24.6	(0.2)	0.4
Post-secondary and training sector	7.8	7.6	7.7	(0.2)	(0.1)
Children's and social services sector	15.4	15.~~5~~6	14.7	0.1	0.~~8~~9
Justice	4.4	4.5	4.3	0.1	0.2
Other programs[3]	16.8	~~17.1~~18.6	16.9	~~0.3~~1.8	~~0.3~~1.7
Total Program Expense	**120.5**	**~~120.9~~122.4**	**118.2**	**~~0.4~~1.9**	**4.2~~.7~~**
Interest on debt	11.4	11.0	10.6	(0.4)	0.4
Total Expense	**131.9**	**~~131.9~~133.4**	**128.8**	**~~-~~1.5**	**~~3.1~~4.6**
Reserve	1.0	-	-	(1.0)	-
Annual Deficit	**(8.5)**	**~~(3.~~(5).0))**	**(10.3)**	**(3.5~~.0~~)**	**(~~6.8~~5.3)**

Notes:
[1] Numbers may not add due to rounding.
[2] Teachers' Pension Plan expense is included in Other programs. In the Consolidated Financial Statements, this expense item appears under the Ministry of Education. Schedule 4 to the financial statements provides details.
[3] The 2015 Budget included a Program Review Savings Target of $490 million and Year End Savings of $1.0 billion.

Revenue

Comparison to the 2015 Budget plan

In the 2015 calendar year, Ontario's real GDP grew by a solid 2.6 per cent, driven by a boost from exports, business investments and sustained growth in household spending. Growth was very close to the 2.7 per cent forecast in the 2015 Budget.

The robust growth was supported by solid economic expansion in the United States and favourable shifts in key external factors, including reduced oil prices, a more competitive Canadian dollar and low interest rates.

Revenues for 2015–16 came in at $128.4 billion, or 3.2 per cent higher-_than-_forecast in the 2015 Budget. See Chart 1 for a breakdown of revenues by source.

Excluding the impacts of the sale of Hydro One shares as discussed on page ~~xx~~14:

- Taxation revenues were $1.7 billion, or 2.0 per cent higher-than-projected in the 2015 Budget. Personal income tax revenues were $0.8 billion higher, reflecting stronger-than-projected 2015 tax assessments. The strong housing market in 2015 contributed to a $0.8 billion increase in combined sales tax and land transfer tax revenues.

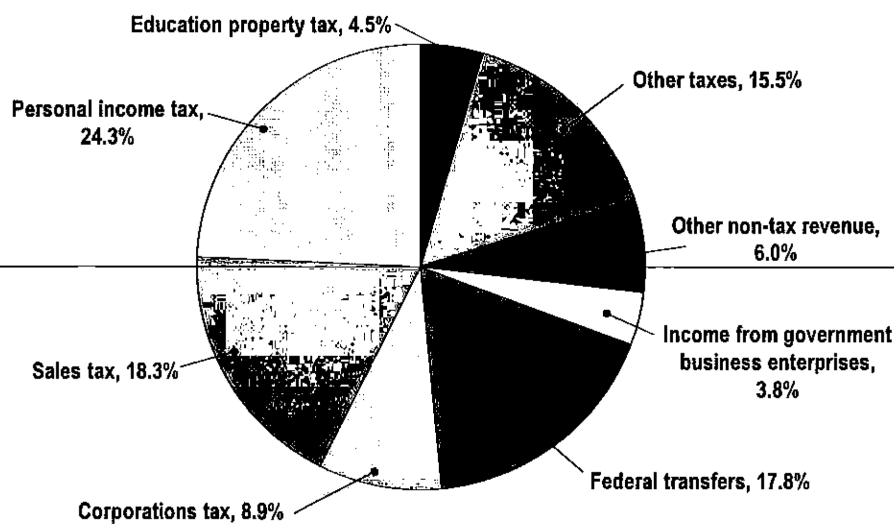
- Income from GBEs was $0.6 billion higher, reflecting higher-than-projected returns from ~~the~~ Ontario Power Generation Inc., the Ontario Lottery and Gaming Corporation and the Liquor Control Board of Ontario.

- Other non-tax revenues were $0.3 billion higher on a net basis, mainly reflecting higher recoveries of prior year expenditures and higher fiscally neutral Power Supply Contract Recoveries.

Another factor was an increase from plan of $1.5 billion in net revenues arising from the completion of the first phase of broadening Hydro One ownership.

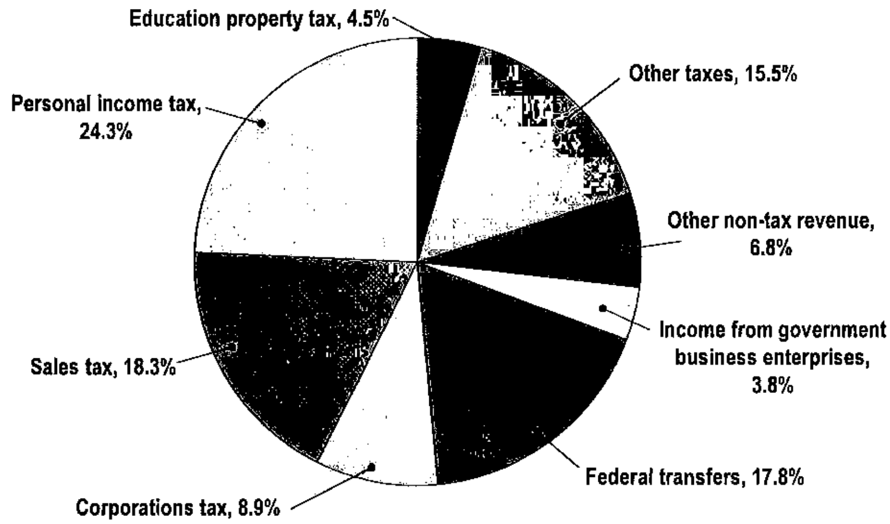
Transfers from the Government of Canada were close to the 2015 Budget estimate.

2015–16 revenue by source ($128.4 billion) **Chart 1**



May not add to 100 per cent due to rounding.

2015–16 revenue by source ($128.4 billion) Chart 1



Percentages may not add to 100 per cent due to rounding.

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Comparison to prior year and earlier years

Total revenues were up $9.8 billion, or 8.3 per cent, from the previous year.

Excluding the impacts of the sale of Hydro One shares, as discussed below:

- Taxation revenues grew by $6.8 billion, or 8.3 per cent, reflecting economic growth, including a strong 2015 housing market. Prior year adjustments that lowered 2014–15 corporations tax revenues and boosted 2015–16 Harmonized Sales Tax (HST) revenues also contributed to stronger year-over-year growth.

- Net income from GBEs declined in 2015–16 by $0.2 billion, mainly due to lower net income from Ontario Power Generation after a one-time gain from 2014–15. This was partially offset by higher net income growth from the Ontario Lottery and Gaming Corporation and the Liquor Control Board of Ontario.

Higher net revenues from asset optimization arising from the first phase of broadening Hydro One ownership accounted for $2.0 billion of the increase in Provincial revenues.

Higher transfers under the Canada Health Transfer, Canada Social Transfer and Equalization programs accounted for most of the $1.2 billion year-over-year increase in Government of Canada transfers.

Broadening Hydro One ownership

In November 2015, the Province completed the first phase of its plan to broaden Hydro One ownership. It sold approximately 16 per cent of the Province's outstanding Hydro One common shares at a price of $20.50 per share, through an IPO and through related share sales to electricity sector union trusts. As a result, as at March 31, 2016, the Province owned about 84 per cent of the outstanding common shares in Hydro One.

The Province reported a gain of $0.8 billion from the sale of Hydro One shares as well as a deferred gain of $48 million in connection with sales to electricity sector union trusts.

The Hydro One IPO had additional impacts. Prior to the IPO, Hydro One was exempt from taxation under the federal *Income Tax Act* and the provincial *Taxation Act, 2007*, and instead made payments in lieu of corporate taxes (corporate PILs) to the Province.

Hydro One's tax-exempt status ended as a result of the IPO, and it exited the corporate PILs regime to become subject to federal and provincial taxes. Immediately before that occurred, the entity was deemed to have disposed of its assets for proceeds equal to the assets' fair market value.

As a result of this deemed disposition, before exiting the corporate PILs regime Hydro One had to make a payment to the Province through the Ontario Electricity Financial Corporation under the *Electricity Act, 1998*, related to the income and capital gains arising from the difference between the assets' fair value and tax value. This one-time payment to the Province, referred to as the departure tax, was $2.6 billion. Hydro One also paid the Province —$0.2 billion in additional corporate PILs in connection with leaving the corporate PILs regime.

These one-time payments did not affect the Province's annual deficit, as the additional revenue was offset by an equal reduction in Hydro One's net income, which is consolidated in the Province's financial statements. The Province continues to consolidate Hydro One according to its proportionate share ownership.

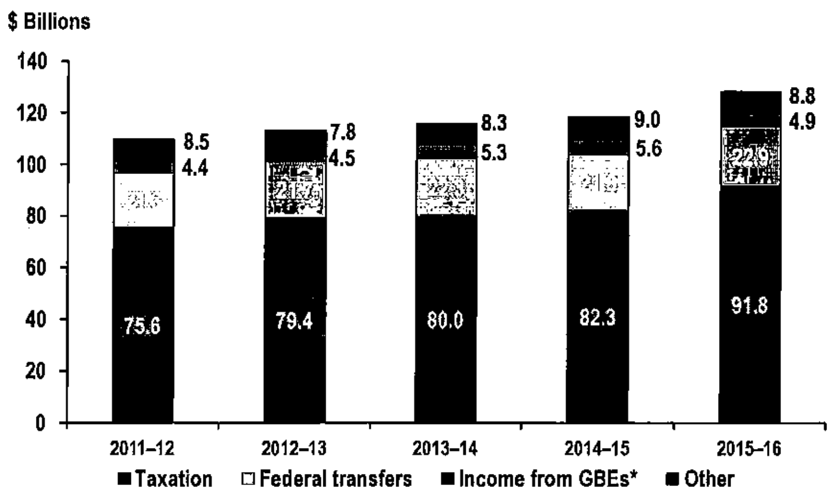
Hydro One is now subject to corporate income taxes. The transition into the corporate income tax regime also resulted in Hydro One recognizing a deferred tax recovery based on the fair market value of its assets that increased the Province's reported revenues by $2.4 billion. The deferred tax asset reflects the fact that cash taxes payable by Hydro One, including those payable to the Province, will be reduced for some period into the future.

Under the *Trillium Trust Act, 2014*, net revenue gains from the disposition of Hydro One shares are allocated to the Trillium Trust. ~~Refer to the section~~ See "Transparency and Accountability" on page ~~xx~~41 and ~~in~~ Volume 1 of the Public Accounts for more details.

Revenue trend

Chart 2 shows the recent trends in revenue for the Province's major revenue sources.

Revenue by source — 5-year comparison **Chart 2**



* Government business enterprises (Liquor Control Board of Ontario, Ontario Lottery and Gaming Corporation, Ontario Power Generation Inc., Hydro One Limited and Brampton Distribution Holdco Inc.).

Taxation revenue

Between 2011–12 and 2015–16, taxation revenue grew at an annual average rate of 5.0 per cent, higher than the average annual nominal GDP growth of 3.2 per cent over the same period.

Although economic growth and increases in taxation revenue are clearly linked, the relationship is affected by several factors. Growth in some revenue sources, such as corporations tax and mining tax, can diverge significantly from economic growth in any given year, due to the inherent volatility of business profits as well as the use of tax provisions such as the option to carry losses forward or backward. The impact of housing completions and re-sales on HST and Land Transfer Tax revenue is proportionately greater than their contribution to GDP. As well, changes in such sources as volume-based gasoline and fuel taxes are more closely aligned to growth in real as opposed to nominal GDP, as these revenue sources are less influenced by price changes.

Much of the rising trend in taxation revenues between 2011–12 and 2015–16 reflects a growing economy and the impact of tax measures, as well as measures aimed at tax fairness and addressing the underground economy.

Other taxation revenues increased significantly in 2015–16 compared to the prior year. The increase largely reflects one-time payments in lieu of taxes from Hydro One associated with the Hydro One IPO. This transition resulted in a one-time $2.6 billion departure tax payment in addition to $0.2 billion in one-time payments in lieu of taxes from Hydro One to the Province. These one-time payments were revenue neutral to the Province, as they also reduced the Province's revenues from Hydro One's net income by an equal amount. The Province's relative share of Hydro One's net income is reported in the consolidated statements as income from GBEs.

Federal government transfers

Government of Canada transfers are based on existing federal–provincial funding arrangements and formulas. These include major federal transfer programs such as the Canada Health Transfer, Canada Social Transfer and Equalization programs, as well as transfers for social housing, infrastructure and labour market programs. There are also a number of smaller federal transfers to the Province, which are largely program-specific. Some transfers are ongoing, while others are time-limited.

Between 2011–12 and 2015–16, Government of Canada transfers grew at an annual average rate of 1.8 per cent. Higher entitlements under the Canada Health Transfer, Canada Social Transfer and Equalization payments were partially offset by several time-limited transfers that wound down over that time period.

Income from government business enterprises

Revenues for the Province include the net income of five GBEs: the Ontario Lottery and Gaming Corporation, the Liquor Control Board of Ontario, Ontario Power Generation Inc., Hydro One Limited and Brampton Distribution Holdco Inc. (Before August 31, 2015, Hydro One Brampton Networks Inc., a subsidiary of Brampton Distribution Holdco Inc., was a subsidiary of Hydro One and its results were included in those of Hydro One on the Province's financial reports.)

After growing between 2011–12 and 2014–15, net income from GBEs declined in 2015–16. This was mainly due to the impact to Hydro One's net income from the one-time, final payments in lieu of taxes to the Province triggered by the Hydro One IPO.

Other non-tax revenues

Other non-tax revenues arise from a number of sources, including vehicle and driver registration fees; sales and rentals of goods and services; other fees, licences and permits; reimbursements of provincial expenditures in delivering certain services; royalties for the use of Crown resources; and such revenue sources from the electricity sector as the Debt Retirement Charge, Power Supply Contract Recoveries and Net Reduction of Power Purchase Contract Liability.

Other non-tax revenues grew moderately, at an annual average rate of 1.0 per cent, between 2011–12 and 2015–16. Two major factors were responsible for most of the growth in revenues:

- Increases in licensing and vehicle validation fees to maintain and expand provincial roads and highways; and
- The Province's asset-optimization strategy, particularly the gain on the sale and redemption of General Motors shares in 2013–14 and 2014–15 and the gain on the sale of Hydro One common shares in 2015–16.

These gains were partially offset by lower non-tax revenues from the electricity sector.

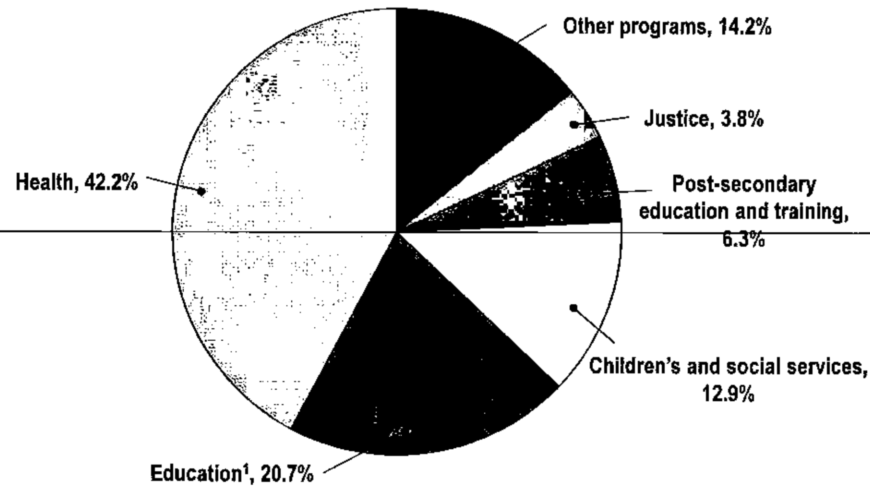
Expense

Comparison to the 2015 Budget plan

Total expense in 2015–16 was $~~131.9~~133.4 billion~~ consistent with~~, which was higher than forecast in the 2015 Budget plan. Program spending was $~~120.9~~122.4 billion, up ~~by $0.4~~$1.9 billion from a planned spending of $120.5 billion. Spending in the health, children's and social services, and justice sectors~~ and~~, as well as in other programs, was higher than planned (see Table 2). In addition, ~~the~~ change in ~~legislated~~ accounting treatment for pension assets, which is reported under other program expense, resulted in an increase of $1.5 billion over 2015 Budget plan. See Chart 3 for a breakdown of program expense by sector.

2015–16 program expense by sector ($120.9 billion)

Chart 3

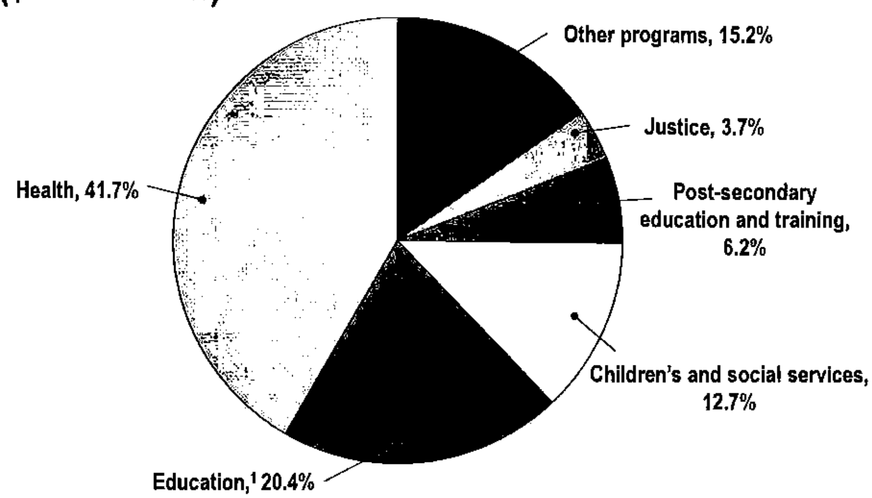


May not add to 100 per cent due to rounding.

[1] Teachers' Pension Plan is included in Other programs.

2015–16 program expense by sector ($122.4 billion)

Chart 3



Percentages may not add to 100 per cent due to rounding.

[1] Teachers' Pension Plan is included in Other programs.

Total program spending was $~~433 million~~1.9 billion higher than the Budget plan, resulting in actual program expense of $~~120.9~~122.4 billion. The increases were attributable to:

- Health sector expense that was $294 million, or about 0.6 per cent, above plan. Higher spending resulted from increased drug costs as well as higher hospital sector expense, which was partially offset by underspending in agencies.

- Children's and social services sector expense that was $124 million higher than planned, due mainly to additional spending to address demand for the Ontario Disability Support Program and the cost of prescription drugs for social assistance recipients.

- Justice sector expense increases of $120 million, mainly due to settlements under the *Proceedings Against the Crown Act* and higher-than-expected bad debt provisions related to unpaid fines.

the treatment for pension assets related to

- Other programs expense ~~that~~ was $~~303 million~~1.8 billion higher-_than-_expected~~.~~ ~~The increase was~~, mainly due to the change in accounting ~~policy for~~ for jointly sponsored pension plans, higher-than-anticipated expense for the Ontario Production Services Tax Credit and costs related to the Hydro One IPO.

Increases in these sectors and programs were partially offset by:

- Education sector expense that was $233 million lower-_than-_expected, due in part to a higher share of funding spent on capital projects that are capitalized and amortized instead of expensed, higher-than-forecasted revenues from education development charges and slightly lower-than-projected enrolment.

- Post-secondary and training sector expense that was $176 million lower-_than-expected, mainly due to lower spending on post-secondary operating grants and lower student financial assistance as a result of lower-than-forecast enrolment. As _well, spending on employment and training programs was below plan, partially offset by higher expense on tax credits to employers to support training.

As noted in the footnote to Table 2, the 2015 Budget included two savings targets that together totaled $1.49 billion as part of other programs expense. Because savings were achieved across government, the targets were reallocated to the ministries that achieved savings — notably in both the education and post-secondary and training sectors, as highlighted above. In the year ended March 31, 2016, not all of the expected savings were achieved, which are reflected in higher-than-planned expense. ~~These savings were offset by the~~ impact of the change in accounting for jointly sponsored pension plans, which increased other program expense by $1.5 billion for the year.

of $0.4 billion, before the additional

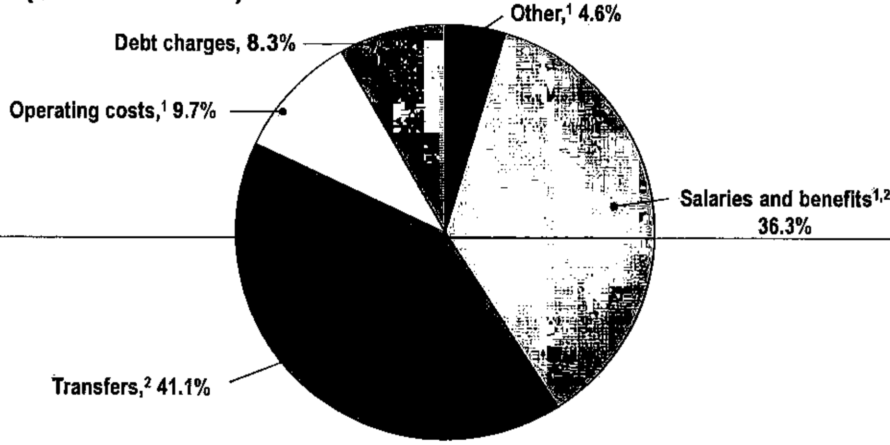
0927 program

~~the additional~~

treatment

2015–16 spending by type of expense ($131.9 billion)

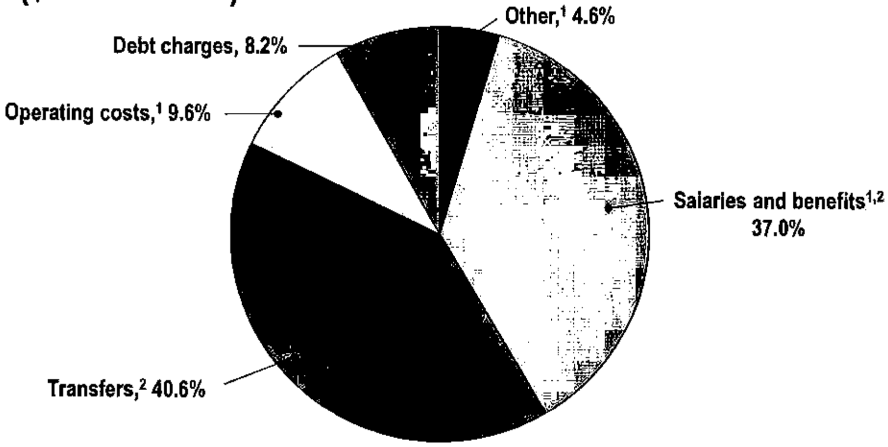
Chart 4



[1] Salaries and benefits, Operating costs and Other include consolidated BPS organizations and are net of third party revenues from the BPS organizations. Information on BPS results can be found in Schedule 10 of the Consolidated Financial Statements.
[2] Compensation related costs for non-consolidated entities (e.g. Children's Aid Societies, Community Care Access Centres, Universities) and payments to doctors for physician services are included in Transfers.

2015–16 spending by type of expense ($133.4 billion)

Chart 4



[1] Salaries and benefits, Operating costs and Other include consolidated BPS organizations and are net of third-party revenues from the BPS organizations. Information on BPS results can be found in Schedule 10 of the Consolidated Financial Statements.
[2] Compensation related costs for non-consolidated entities (e.g., Children's Aid Societies, Community Care Access Centres, Universities) and payments to doctors for physician services are included in Transfers.

Chart 4 shows spending by type of expense instead of spending by sector. A significant share of government spending goes directly to salaries and benefits across ministries in the Ontario Public Service and BPS organizations, including hospitals, school boards and colleges~~,~~ that are consolidated in its accounts. Note that the share labelled "Transfers" in Chart 4 includes payments to doctors for physician services, but does not include transfers to consolidated BPS organizations; these are reflected in the other expense types.

The transfers ~~share goes~~category reflects payments to a variety of third parties, mainly in the public sector, to support the delivery of public services. These third parties include, for example, child care providers, social service agencies and health care professionals. As service providers, a large share of the spending of these third parties typically goes to salaries and benefits.

Comparison to prior year and earlier years

Year-over-year, program spending grew by ~~2.~~3.6 per cent in 2015–16.

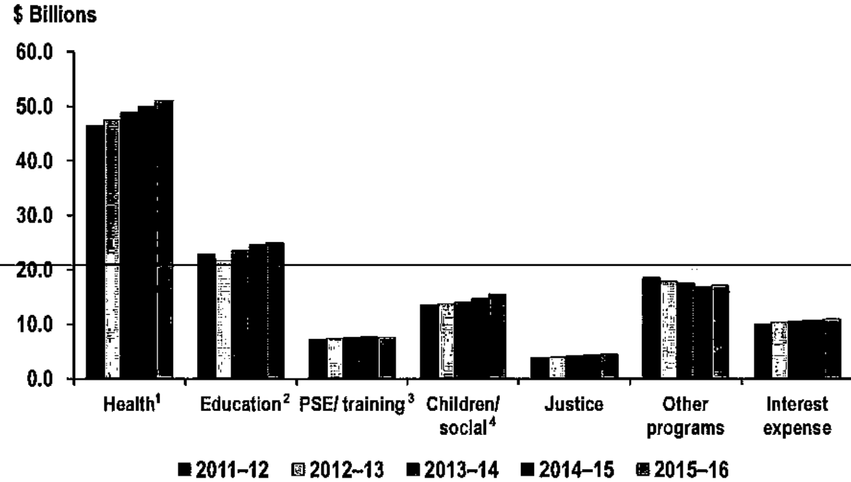
Health care represents the largest share of government program spending. Transformation efforts to make the sector more effective and sustainable are vital to managing overall spending growth and to achieving better outcomes for patients in a better integrated system. These continuing efforts moderated the year-over-year growth in health sector spending to 2.1 per cent in 2015–16. Prior to this transformation, the sector had been experiencing an average annual growth rate of over 6.0 per cent.

Chart 5 shows the recent trends in spending for major program areas.

Greg Orencsak
0927 Review

Expense by sector — 5-year comparison

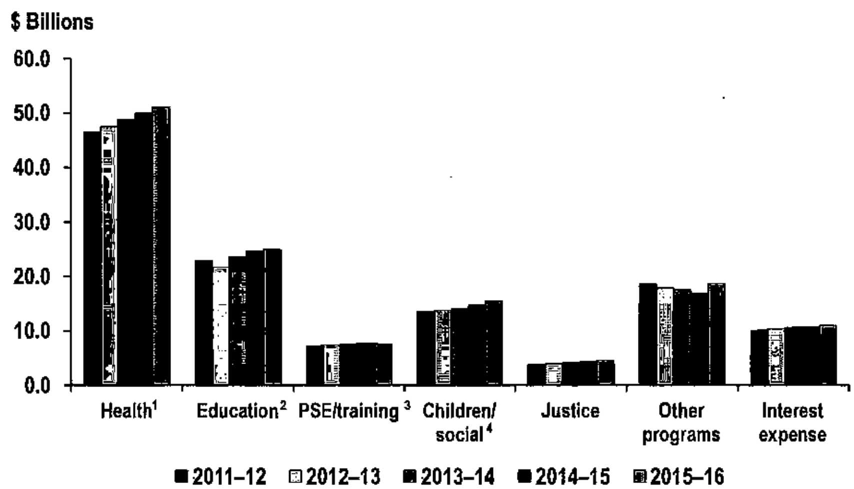
Chart 5



[1] Includes payments to Community Care Access Centres
[2] Teachers' Pension Plan is included in Other programs.
[3] Post-secondary education and training.
[4] Children's and social services includes Children's Aid Societies.

Expense by sector — 5-year comparison

Chart 5



[1] Includes payments to Community Care Access Centres
[2] Teachers' Pension Plan is included in Other programs.
[3] Post-secondary education and training.
[4] Children's and social services includes Children's Aid Societies.

- Health sector expense increased from $46.5 billion in 2011–12 to $51.1 billion in 2015–16, or on average by 2.4 per cent per year between 2011–12 and 2015–16. These increases are due in part to increasing demands for health care services from an aging and growing population, along with other factors. Increases also include new investments in home and community care as well as specialized services such as cancer care. Expense increases in the health sector have been moderated by ongoing transformation of the sector to focus on patients while reducing costs such as the prices of generic prescription drugs.

- Education sector expense increased from $22.9 billion in 2011–12 to $25.0 billion in 2015–16, or on average by 2.2 per cent per year between 2011–12 and 2015–16. The increase is mainly due to the introduction of full-day kindergarten, which has been made available to every four- and five-year-old in Ontario since September 2014. Expense was lower in 2012–13 due to the impact of $1.3 billion in one-time savings from reducing liabilities carried by school boards for sick-day banking and retirement gratuities.

- Post-secondary education and training sector expense increased from $7.3 billion in 2011–12 to $7.6 billion in 2015–16, or on average by 1.3 per cent per year between 2011–12 and 2015–16. The increase is mainly due to continued funding to support enrolment growth in post-secondary institutions, growth in student financial assistance programs and support for employment and training programs.

about

This change brought other programs expense back to where it was in 2011-12.

- Children's and social services sector expense increased from $13.5 billion in 2011–12 to $15.~~5~~6 billion in 2015–16, or on average by 3.5 per cent per year between 2011–12 and 2015–16. This increase reflects annual social assistance rate increases, caseload growth in the Ontario Disability Support Program, and investments in developmental services and the Ontario Child Benefit.

- Justice sector expense increased from $3.9 billion in 2011–12 to $4.5 billion in 2015–16, or on average by 4.1 per cent per year between 2011–12 and 2015–16. These increases are mainly due to the provincial upload of court security costs from municipalities, costs incurred mainly in 2015–16 for the security services for the 2015 Pan/Parapan American Games and improved access to legal aid for low-income Ontarians.

- Other programs expense ~~decreased from~~was $18.6 billion in ~~2011–12 to~~2015–16, including a $1.5 billion increase in pension expense due to the impact of an accounting adjustment related to pension assets. Prior to the adjustment, other programs expense for 2015–16 would have been $17.1 billion~~ in 2015–16, or on~~, contributing to an average ~~by~~decrease of 2.0 per cent per year between 2011–12 and 2015–16. ~~These decreases are mainly due to the end of time-limited funding related to Harmonized Sales Tax transitional support and other savings. This is partially offset by increased investments~~The ~~impact of the~~ change in ~~transit, transportation and community infrastructure, investments~~accounting for pensions is described in ~~affordable housing programs, and support for the 2015 Pan/Parapan American Games~~Note 18 to the Consolidated Financial Statements. treatment