2016-17 Third Quarter Update

Premier,

I wanted to provide you with a brief update on approach MOF is taking for the release of this year's Third Quarter Finances.

The update will reinforce our commitment towards balancing the Budget in 17/18, and that the government is projecting a **deficit of $1.9 billion in 2016-17**, an improvement of $2.4 billion since the 2016 Budget. The proposed deficit improvement number reinforces the underlying message, as we communicated at Public Accounts last year, that we would have met our balance-budget targets regardless of the AG's proposed pension accounting adjustment crediting our government's fiscally sound approach to managing the Province's finances which has helped to grow the economy, create jobs and ensure the sustainability of programs and services that help Ontarians in their everyday lives. This includes supporting strategic investments, such as funding for healthcare.

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.

Due to its close proximity to the delivery of the annual Budget, a third quarter update has only been issued once in the past eight years (in 2012-13).

Alignment with Pension Asset Expert Advisory Panel

The Pension Asset Expert Advisory Panel is expected to release its findings on February 13, 2017 (though we expect the report's findings will be in the public domain by February 9th).

Releasing Third Quarter Finances a week later, on February 21, 2017, could provide the government with an immediate opportunity to align its fiscal strategy with recommendations of the panel, and frame the pension narrative in advance of the 2017 Budget.

- A letter to the Clerk will be sent on February 13th to coincide with the release of the Pension Panel's Report advising that the Third Quarter Finances will be delayed in order to reflect the Panel's recommendations.

2016-17 Third Quarter Outlook

You will recall, the 2016 Budget and Fall Economic Statement (FES) projected a deficit of **$4.3 billion in 2016-17**. An early-read indicates that end of year projections for the 2016-17 deficit could range from

$0.6 billion (if no downside risks materialize) to $2.7 billion (if the full downside risks materialize) by year end.

In order to protect against risks or other changes that may materialize between now and the Budget, it is recommended that the Third Quarter Finances present a deficit of $1.9 billion, an improvement of $2.4 billion relative to the 2016 Budget and FES deficit projection.

This improvement compared to FES is due to the net impact of:

- Reversing the $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 to reflect that certification and settlement of the proceeds will occur in the 2017-18 fiscal year;
- Additional HST revenue of $0.9 billion; and
- Additional investments of $0.2 billion, mainly recognizing pressures in the health sector.

The narrative will build on the 2016 FES, focusing on the investments the government is making in priority areas while beating its deficit targets.

I've included a helpful placemat that illustrates our fiscal architecture considerations in greater detail. This is an internal fiscal planning document. The chart below is what will be published on February 21.

$ 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**

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