Public Accounts 2016-17

Communications Products for approvals:

- News Release
- Backgrounder
- Top Media Qs & As *(updates to Q5 and Q7)*

Ontario

NEWS

Treasury Board Secretariat

Ontario's Deficit $3.3 Billion Lower Than Projected

Province Beats Deficit Target Eight Years in a Row

NEWS September XX, 2017

The 2016-17 Public Accounts of Ontario show that Ontario's deficit is $991 million. Ontario has beaten its deficit target eight years in a row.

The deficit is $3.3 billion lower than projected in the 2016 Budget and $0.5 billion lower than the interim projection in the 2017 Ontario Budget. This is a result of growth in revenue that exceeded growth in program expense, and lower than forecast interest on debt. Other highlights from this year's Public Accounts include:

- Economic growth, with a 2.7 per cent increase in real gross domestic product (GDP) , up from 2.2 per cent in the 2016 Budget
- Total revenue of $140.7 billion, up $2.2 billion from the 2016 Budget
- Total spending of $141.7 billion, down $0.1 billion from the 2016 Budget
- Interest on debt of $11.7 billion, down $0.7 billion from the 2016 Budget

Once again, the government is providing new digital tools online to help Ontarians better understand their government's finances. Presenting the Public Accounts data in innovative visual formats, and releasing more data through Ontario's Open Data Catalogue, is part of Ontario's commitment to Open Government.

Responsibly managing the Province's finances is part of our plan to create jobs, grow our economy and help people in their everyday lives.

QUOTES

"SUGGESTED QUOTE For eight years in a row, we have beaten our annual deficit target. We will continue to build on our track record of responsible fiscal management by balancing the budget in 2017-18. At the end of the day, a balanced budget means more funding for the programs and services people and families rely on most."
— Liz Sandals, President of the Treasury Board

"PLACEHOLDER"
— Charles Sousa, Minister of Finance

QUICK FACTS

- Ontario's annual deficit fell from a peak of $19.3 billion in 2009-10 to $991 million in 2016-17.
- Average annual growth of total government spending has been held to 2.3 per cent for the past five years.
- Over the last three years, Ontario's GDP growth has outpaced that of all other G7 countries.
- The interim net debt-to-GDP ratio for 2016–17 was forecast at 37.8 per cent in the 2017 Budget, an improvement compared to the 2016 Budget projection of 39.6 per cent.
- The 2016-17 Public Accounts compare Ontario's actual financial performance to what was planned in the 2016 Budget.
- Treasury Board Secretariat prepares Public Accounts in accordance with independently established standards set out by the Public Sector Accounting Board. Ontario's Auditor General reviews the Public Accounts against these standards and provides an opinion on the Province's adherence to them.
- The Auditor General's qualified opinion is based on a different interpretation of public sector accounting standards for net pension assets and recognition of market accounts. The Province continues to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

BACKGROUND INFORMATION

- Accounting Changes to Ontario's Financial Statements

ADDITIONAL RESOURCES

Watch the "Public Accounts 101" video

Public Accounts of Ontario 2016-17

Understanding Ontario's Budget cycle

Read the 2016 Budget

Explore the more than 500 open data sets in the Open Data Catalogue

---

Matt Ostergard, Minister's Office, 416-326-3839
Bryant Sullivan, Communications, 416-325-1378

ontario.ca/news
Disponible en français

Ontario

BACKGROUNDER

Treasury Board Secretariat

Accounting Changes to Ontario's Financial Statements

September XX, 2017

Treasury Board Secretariat prepares the Public Accounts according to the accounting principles for governments issued by the Public Sector Accounting Board (PSAB). When preparing this year's Public Accounts, Ontario implemented accounting changes to further enhance accountability and transparency. To ensure consistency in year-to-year comparisons, financial statements from previous years have been restated, as needed, to reflect the following changes:

Accounting for net pension assets of jointly sponsored pension plans

In 2016-17, the Province is reporting the net pension assets for two of its jointly sponsored pension plans, the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP). Until the 2015-16 Public Accounts, Ontario had recognized pension assets in its financial statements since 2001.

In preparing the 2015-16 Public Accounts, the Province's professional accounting staff and the Auditor General's Office engaged in discussions on the appropriate application of PSAB pension accounting standards for the Province's two jointly sponsored pension plans. The Pension Asset Expert Advisory Panel (PAEAP) was subsequently established to deliver independent advice and recommendations to the Province.

After careful study, the independent panel members released their report. It concluded that the Province's share of the net pension assets of both OTPP and OPSEUPP should be recognized in Ontario's financial statements.

After significant deliberation, including considering PAEAP's recommendations, Ontario confirmed that the accounting used for these pension plans prior to 2015-16 was appropriate, and are prepared in accordance with public sector accounting standards for pension asset accounting. Further, Ernst & Young LLP provided additional analysis and concluded that no valuation analysis was required for either plan. The 2016-17 financial statements include these net pension assets.

Accounting for the Independent Electricity System Operator

For the 2016-17 reporting year, the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of the IESO-administered markets at year-end.

.../2

IESO has also adopted rate-regulated accounting. This decision was made because using rate-regulated accounting better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO highlighted these changes in their recent annual report. These changes are supported by the IESO's independent external auditor, which issued an unqualified audit opinion.

Accounting for hospitals, school boards and colleges

To increase transparency, the 2016-17 Public Accounts are presenting third-party revenues for hospitals, school boards and colleges with provincial revenue. Third-party revenues earned by these organizations, such as tuition fees, patient fees, research grants and donations, were netted against the respective sectors' expenses in prior years. This is simply a presentation change and it is fiscally neutral and does not impact the Province's annual deficit, net debt, or accumulated deficit. This change is consistent with public sector accounting standards and the reporting practices of other senior Canadian governments.

Accounting for energy sector government business enterprises

In the 2016-17 Public Accounts, the financial results of Ontario's investments in Hydro One and Ontario Power Generation are reported using international financial reporting standards. Previously, these results were reported using generally accepted accounting principles in the United States. This change was made to meet PSAB requirements. The change does not have a material impact on this year's financial statements.

Matt Ostergard, Minister's Office, 416-326-3839
Bryant Sullivan, Communications, 416-325-1378

ontario.ca/news
Disponible en français

Top Media Qs & As

1. **The Auditor General has issued a qualified opinion for the second year in a row. Is this a sign of fiscal mismanagement?**

   We continue to move forward and present the Province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Board standards. Ontario has a strong track record of producing high-quality financial reports on a timely basis. The Auditor General's qualified opinion is based on a different interpretation of Public Sector Accounting Board standards for net pension assets and recognition of market accounts.

   Last year there was a disagreement among the Province's professional accounting staff and the Auditor General's Office on the appropriate application of Public Sector Accounting Board standards regarding pension accounting. As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations on the issue to the Province.

   The independent panel members concluded the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

   After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate, and are prepared in accordance with public sector accounting standards for pension asset accounting. Further, Ernst & Young LLP provided additional analysis and concluded that no valuation analysis was required for either plan. The 2016-17 financial statements include these pension assets, and we continue to apply the accounting treatment of pension assets that the Province has used consistently since 2001.

   This year the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of the IESO-administered markets as year-end. This change was supported by the IESO's audit committee, an independent external auditor, and finally by the Office of the Provincial Controller. This change also has no impact to the province's annual deficit, net debt or accumulated deficit.

   This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

2. The Auditor General is critical of the IESO accounting changes. Is this another example of Ontario's 'funny math'?

No. The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of the IESO-administered markets as year-end.

Public Sector Accounting Board standards encourage preparers and auditors to consider guidance in other accounting frameworks to address transparency and accountability:

- This accounting change was accepted by the IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in the IESO's annual report which was published online in March 2017.
- Further, this accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

This change has no impact to the province's annual deficit, net debt or accumulated deficit.

As such, this accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

If pressed on rate-regulated accounting:

The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board. The IESO adopted rate-regulated accounting for its year ended December 31, 2016. The impact on the financial statements of the Province is a decrease of $82 million in the 2016-17 opening accumulated deficit and an increase in the 2016-17 annual deficit by $24 million.

This accounting change was accepted by the IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in the IESO's annual report which was published online in March 2017.

3. **Why are you still fighting with the Auditor General over pension accounting?**

   In preparing last year's Public Accounts, the Province's professional accounting staff and the Auditor General's Office engaged in discussions about the appropriate application of Public Sector Accounting Board standards regarding pension accounting for the Province's jointly sponsored pension plans.

   As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations to the Province on the issue. The independent panel members concluded the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

   After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate. Further, Ernst & Young LLP provided additional analysis and concluded that no valuation analysis was required for either plan. The 2016-17 financial statements include these pension assets, and we continue to apply the accounting treatment of pension assets that the Province has used consistently since 2001.

   We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

4. **How were you able to beat your deficit target in 2016-17?**

   In 2016-17 we maintained our focus on responsible fiscal management and investing in the right priorities. We are making progress on our economic plan by making investments to spur growth, transforming government and responsibly managing spending.

   Average annual growth of total government spending has been held to 2.3 per cent for the past five years. As a result of growth in revenue that exceeded growth in program expense, as well as lower than forecast interest on debt, the deficit is $3.3 billion lower than projected in the 2016 Budget. It is also $0.5 billion lower than the interim projection in the 2017 Budget.

   This is the eighth year in a row the government has beaten its deficit target.

5. **The government is claiming the deficit has been reduced to $1B deficit for 2016-17 and that the budget will be balanced over the next three years. However, the AG is saying that the deficit for 2016-17 was more than $2B due to the treatment of pension assets, and the FAO has stated that the government's revenue forecast is more than $1B too "optimistic". Isn't the government really hiding a $3-4B deficit instead of a balanced budget? UPDATED BY MOF AUG 29**

   There is no hidden deficit. In the 2010 Budget, the government committed to eliminating the deficit and returning to a balanced budget by 2017-18. Through targeted, measured and fiscally responsible decisions, Ontario has restored its fiscal and economic strength.

   Today we are confirming that the 2016-17 deficit of $1 billion is $3.3 billion lower than projected in the 2016 Budget and $0.5 billion lower than the interim projection in the 2017 Ontario Budget. This marks the eighth year in a row that Ontario has beaten its deficit target.

   The success in eliminating the deficit is supported by a strong track record in managing spending -- having held average growth in spending to 2.3 per cent over the past five years.

   In addition, over the last several years, the government's investments to strengthen economic growth have paid off. Ontario is a leader in economic growth, with our real GDP having outpaced that of all the G7 countries for the last three years. The strengthened economy has resulted in increased revenue for the Province – in fact, over the past two fiscal years, revenue has come in higher than projected, supporting Ontario's return to a balanced budget.

   It is also important to point out that private sector forecasters have revised upward their expectations for the Ontario economy since the 2017 Budget, reflecting the growing strength of the Ontario economy. The government is also taking steps to improve tax fairness and address the underground economy in order to ensure the integrity of the Province's revenues.

   Finally, Ontario's fiscal plan incorporates prudence in the form of a reserve to protect the fiscal outlook against unforeseen adverse changes in the Province's revenue and expense. The reserve has been set at $0.6 billion in 2017-18, $0.6 billion in 2018-19, and $0.9 billion in 2019-20.

Balancing the budget means that the government can invest more in the programs and services that people rely on..

6. **Interest on debt is still massive and the Bank of Canada is expected to raise interest rates again this fall. How is the government preparing for this and will this affect your ability to maintain a balanced budget?**

   The increase in the Bank of Canada's policy rate reflects the growing strength of the Canadian and Ontario economy. Ontario's economy remains strong and has continued to grow and create jobs in an uncertain global environment.
   A quarter-point increase in the policy rate is not likely to have a material impact on the Ontario economic outlook. The 2017 Ontario Budget anticipated that the interest rates would rise modestly,

   As noted in the 2017 Budget, the Province's average cost of 10 year borrowing in 2017-18 is forecast to be 3 per cent. The impact of a 100 basis point increase in borrowing rates is forecast to be approximately $300 million. The interest rate forecast used in the Budget was prudent, and anticipated that long-term interest rates would rise as we progressed through the fiscal year.

7. **You claim to have balanced the budget yet you keep piling on more debt. How do you plan to pay down the debt? UPDATED BY OFA AUG 30**

   We maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, with current projections showing that this will be achieved by 2029-30. In the balanced 2017 Budget, the government is setting an interim target to reduce the net debt-to-GDP ratio to 35 per cent by 2023–24.

   In a balanced budget environment, debt would be incurred primarily to invest in capital assets. We are making progress on our economic plan by making investments to spur growth, transforming government and responsibly managing spending – including addressing the underground economy and maintaining tax fairness. Our strategic investments in infrastructure provide economic benefits: a recent study by the Centre for Spatial Economics (C4SE) finds that, over the long term, real GDP in Ontario will rise up to $6 on average per one dollar of public infrastructure spending.

   These strategic investments are creating jobs and contributing to economic growth. Ontario's GDP grew one per cent in the first quarter of 2017, outperforming that of Canada, the U.S. and all other G7 countries.

8. **Spending for hospitals, school boards and colleges seems to be much higher in Public Accounts than in the 2017 Budget. Why is this?**

   To increase transparency, this year we have made a simple change to how we are reporting third party revenues for broader public sector organizations.

   For the first time, Public Accounts are presenting third party revenues for hospitals, school boards and colleges with provincial revenue. Third-party revenues earned by these organizations, such as tuition fees, patient fees, research grants and donations, are no longer netted against the respective sectors' expenses, as they were in prior years for Public Accounts and the 2017 Budget.

   This is simply a presentation change for Public Accounts. It is fiscally neutral, i.e. there is no change to the annual deficit, net debt or accumulated deficit. To ensure consistency in year-to-year and to Budget comparisons, we are reclassifying all previous years and the 2016 Budget. The 2017 Fall Economic Statement and 2018 Budget will also reflect this presentation change.

   The Auditor General supports the Province's decision to adopt this presentation change. It is consistent with the accounting principles for governments issued by the Public Sector Accounting Board, and the reporting practices of other senior Canadian governments.

9. **The Public Accounts show a drawdown of $260 million from the Trillium Trust. What did you spend the money on?**

   The government began allocating proceeds from the Trillium Trust in 2016-17 to help support infrastructure initiatives such as GO Regional Express Rail (GO RER), the Hurontario Light Rail Transit (LRT) and the Ontario Community Infrastructure Fund (OCIF).

   We expect the Trillium Trust to be drawn down by about an additional $400 million in 2017–18.

   Our strategic investments in infrastructure provide economic benefits: a recent study by the Centre for Spatial Economics (C4SE) finds that, over the long term, real GDP in Ontario will rise up to $6 on average per one dollar of public infrastructure spending.

10. **Does a qualified opinion impact the Province's credit rating?**

    The Province's financial results show that the government has once again beaten its annual deficit targets. In April 2017, we delivered our first balanced budget since the global recession and we are on track to do so again next year and the year after.

The rating agencies will assess whether the underlying factors that lead to a qualified opinion directly affect the creditworthiness of the Province. However, there were no credit rating implications in 2016 when the Province received a qualified audit opinion on its 2015-16 Public Accounts.

In 2017 the C.D. Howe Institute, an independent research organization that assesses the fiscal planning and reporting of governments in Canada, also commented positively on the financial reporting practices of Ontario relating to its fiscal reporting activities that include Public Accounts, the annual Budget and Estimates.

11. The Auditor General has some serious concerns about how you're accounting for the Fair Hydro Plan. What do you say to this?

The accounting for the Fair Hydro Plan is a separate and distinct issue to the Public Accounts for 2016-17 that we're here to talk about today.

However, under the Fair Hydro Plan accounting structure, the Province's net debt and annual surplus/deficit won't be negatively impacted since all costs are expected to be recovered through future rates.

The Ministry of Finance continues to work closely with Treasury Board Secretariat, the Ministry of Energy, Ontario Power Generation (OPG), the Independent Electricity System Operator (IESO) and external advisors to address the outstanding accounting related considerations which will be key to managing the fiscal impact of the Global Adjustment refinancing.

The Auditor General has also been briefed on the government's refinancing structure.

For further questions, I direct you to contact my colleague at the Ministry of Energy.

12. Program spending increased again this year. Why?

Program spending in 2016-17 was $141.7 billion, down $0.1 billion from the 2016 Budget. Average annual growth of total government spending has been held to 2.3 per cent for the past five years.

Healthcare represents the largest share of government program spending at $56 billion. Transformation efforts continue to make the sector more effective and sustainable while continuing to improve access for patients, especially the increased demands from an aging and growing population. The government has invested in new drugs, technologies, community and home care, long term care homes, mental health, physicians' services and specialized cancer treatments.

Other increases include:

- $26.6 billion in education, mainly due to the introduction of full-day kindergarten;
- $16 billion in children's and social services, due to increased annual social assistance rates as well as investments in developmental services, autism and complex special needs programs, as well as the Ontario Child Benefit;
- $10.1 billion in post-secondary and training, due to enrolment growth in colleges and universities along with increased student financial assistance programs and increases in capital funding for post-secondary institutions;
- $4.6 billion in justice sector expenses due mainly to the upload of court security costs from municipalities, compensation for the Ontario Provincial Police and correctional services programs, as well as improved access to legal aid.