2016-17 Interim Fiscal Outlook

Office of the Budget
MINISTRY of FINANCE

BPC/Ministers/MMMP

Preliminary Draft – All Numbers To Be Confirmed

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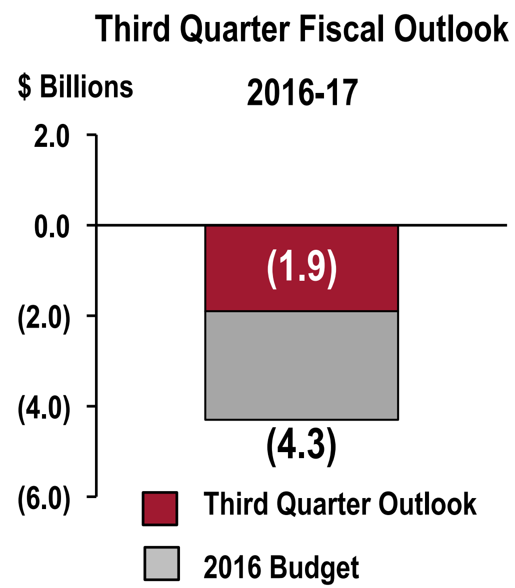
Guiding Principles for 2016-17 Interim Outlook

- The 2017 Document will publish a fiscal outlook from 2016-17 through to 2019-20.
- Considerations for landing the 2016-17 interim outlook differ from those to land the medium-term forecast, and include:
  - **Preconditioning Actuals:** the 2016-17 interim outlook provides a final opportunity to precondition year-end actuals that will be published in the 2016-17 Public Accounts.
  - **Demonstrating ongoing fiscal improvement and management**: the interim outlook could demonstrate overachievement on the $1.9 billion deficit target set out in the Third Quarter Finances, and also show how the government managed in-year spending.
  - **Maintaining prudence**: The interim forecast does not normally include a reserve as the Budget is generally published around the close of the fiscal year. However, a more cautious revenue or interest on debt forecast can been used to provide implicit prudence against year-end changes.

Recap of 2016-17 Third Quarter Outlook

Third Quarter Finances presented a deficit projection of $1.9 billion, a $2.4 billion improvement from the 2016 Budget.

- **Total revenue increased to $133.1 billion, $2.5 billion higher than the 2016 Budget plan** due to:
  - Higher-than-expected 2015 PIT, 2016 HST and NTR, and a strong housing market.
  - This was partially offset by lower federal transfers and cap and trade proceeds that will be recognized in 2017-18 rather than 2016-17.
- **Program expense increased to $123.3 billion, $1.1 billion higher than the 2016 Budget plan**, due to:
  - $1.7 billion in investments to support: social and affordable housing, post-secondary education, environmental initiatives; electricity cost relief and health pressures.
  - $0.5 million in contingency funds offsets.
- **Interest on debt expense** was projected to be **$0.4 billion lower than forecast in the 2016 Budget.**



$ Billions	Budget 2016-17	Change	Q3 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**

Interim Update: Key Changes Since Third Quarter Finances

- Since the publication of the Third Quarter Finances, additional information has been received and decisions have been made that will be incorporated into the 2017 Document Interim outlook.

Revenue

<u>Interim Update:</u>

Since Q3, 2016-17 estimated revenues increased **<u>$0.6 billion</u>** due to:

- increased LTT as expected;
- stronger 2016 economic growth;
- non-tax revenue updates.

Total Expense

<u>Interim Update:</u>

Program Expense: $0.2 billion net increase in program expense related to updated year-end forecasts from ministries and recent approvals. The outlook maintains a $30 million Contingency Fund as prudence.

Interest on Debt: Additional savings of up to $0.2 billion.

Reserve

2016 Budget had a $1.0 billion reserve, which was reduced to $0.4 billion in the Fall Statement. The interim outlook would normally draw down on the reserve completely to foreshadow a year-end outlook.

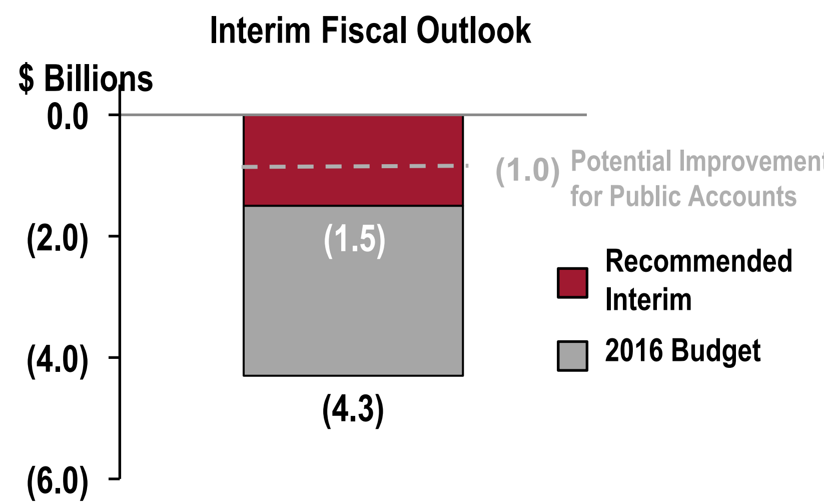
Risks and Information To Come for Public Accounts

- In addition to the ongoing difference in the Auditor's approach related to pension accounting, other new information and risks for both revenue and expense could impact the 2016-17 fiscal results between the 2017 Document and the 2016–17 Public Accounts.

Revenue	Expense
• Forthcoming 2016 tax assessment information, including significant PIT risks (**up to $1.4 billion**) • Final outlooks for GBEs (including OPG nuclear funds) and consolidated government business organizations • Incorporating IFRS accounting for first time • Ministry non-tax revenues • Potential revisions to the 2016 economic growth outlook	• Year-end ministry pressures that materialize • Consolidation updates, particularly BPS • Contaminated sites and other liabilities that may need to be taken on as part of AG review • Other year-end accounting adjustments • Changes to Interest on Debt (IOD)

2016-17 In-Year Fiscal Performance at a Glance

- Based on the current information available, the **deficit is projected to be as low as $1.0 billion** – a $3.3 billion improvement over the 2016 Budget forecast, and $2.5 billion over the 2015-16 deficit.
- However, given the potential that identified risks may materialize as year-end adjustments and offset this potential improvement, the recommended 2016-17 interim outlook is **$1.5 billion**.
  - A modest improvement relative to Q3 would still allow the government to demonstrate progress on its path to balance and potentially leave fiscal flexibility in both revenue (about $0.5B) and interest on debt (less than $0.1B) to help offset year-end changes.
  - Key change from Q3 Finances would be the removal of the reserve – all other changes offset each other.



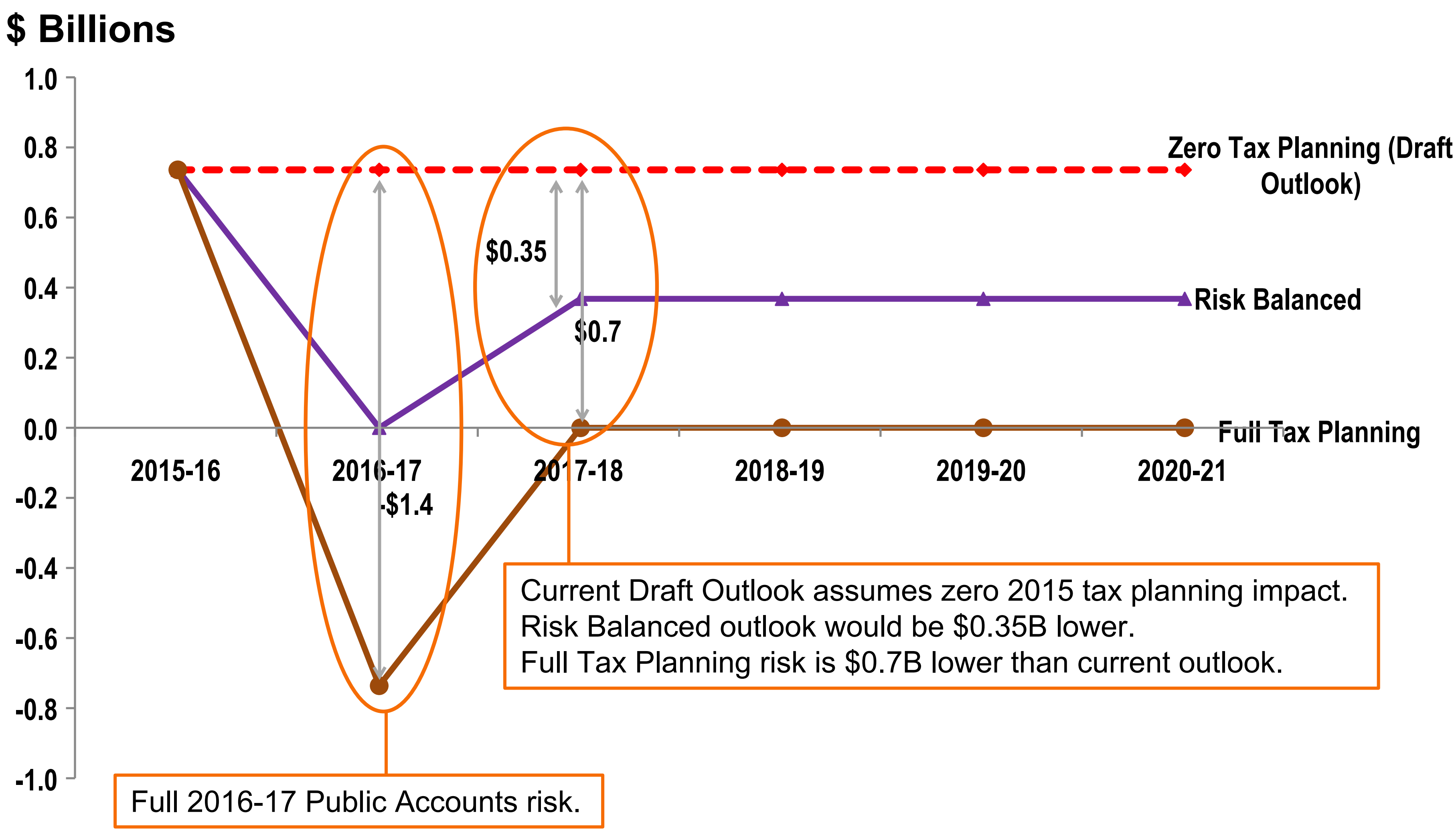
$ Billions	Budget 2016-17	Change to Report	Interim 2016-17
Revenue	**130.6**	***2.6***	**133.2**
Expense			
Programs	122.1	*1.4*	123.5
Interest on Debt	11.8	*(0.5)*	11.3
Total Expense	**133.9**	***0.9***	**134.8**
Surplus/(Deficit) Before Reserve	**(3.3)**	***1.8***	**(1.5)**
Reserve	1.0	*(1.0)*	–
Surplus/(Deficit)	**(4.3)**	***2.8***	**(1.5)**
Net Debt-to-GDP (Per Cent)	**39.6**	***1.8***	**37.8**

Appendix

2016-17 Public Accounts Revenue Risks

- Main risk is the assumption that extraordinarily high 2015 PIT ($1.0B above 2016 Budget estimate) will largely carry forward into the forecast for 2016 and beyond.
  - 2015 PIT revenues may have been materially boosted by tax planning through which taxpayers shifted income from future years into 2015 to avoid increases in federal tax rates applied above $200,000 of taxable income.
  - Current outlook does not include an allowance for tax planning.
  - Federal Finance methodology applied to Ontario results in an estimate of $0.7B in 2015 revenues being due to tax planning.
  - A prudent allowance of $0.5B has been included in the interim outlook for 2016-17.
  - Impact of the full amount being attributed to tax planning would be a lower 2015 base, reducing the revenue outlook by a further $0.9B in 2016-17, and $0.7B per year onwards.
  - Risk to 2016 PIT will remain until tax return processing information becomes available in the summer of 2017.
- Historically, government business enterprise and Ministry internal revenue estimates are slightly prudent and increase in the range of $0.1 to $0.3B in Public Accounts.
- Potential risks related to OPG net income from OPG's rate application, operational, and financial market risks.

PIT Tax Planning Risk



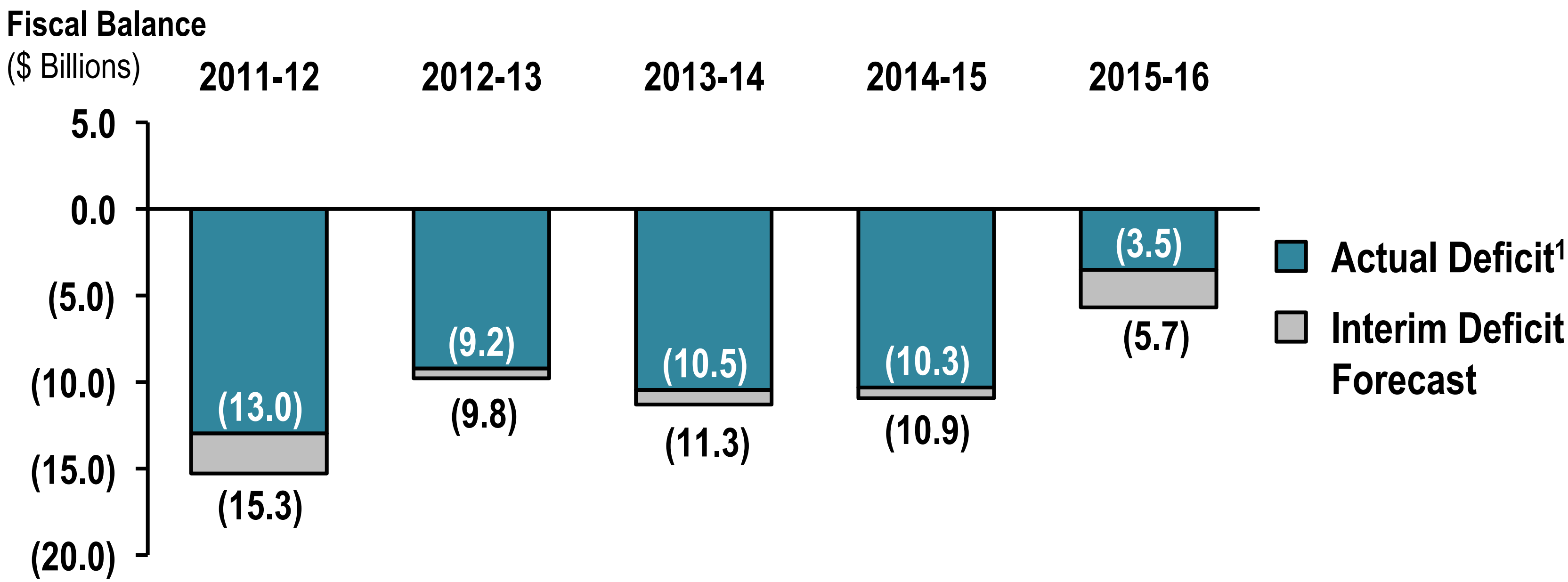
Program Spending Performance

2016-17 Interim Expense Outlook $ Millions	Budget 2016-17	Q3 Finances	Interim 2016-17	Interim vs. Q3	Interim vs. 2016 Budget	Y-O-Y Growth Actual 2015-16 to Interim 2016-17	Average Annual Growth 2013-14 to 2016-17 Interim
Health Sector	51,785	52,138	52,206	**68**	**421**	2.2%	2.2%
Education Sector	25,636	25,672	25,741	**68**	**105**	3.0%	2.9%
Postsecondary and Training	7,877	8,097	7,807	**(289)**	**(70)**	2.0%	0.9%
Children’s and Social Services Sector	15,814	15,948	16,168	**219**	**354**	4.1%	5.0%
Justice Sector	4,517	4,533	4,631	**97**	**113**	1.8%	3.3%
Other Programs Sector	16,511	16,870	16,950	**81**	**440**	-1.0%	-1.0%
Total Program Expense	**122,139**	**123,258**	**123,502**	**245**	**1,363**	**2.1%**	**2.2%**

Revenue Performance

2016-17 Interim Revenue Outlook $ Millions	Budget 2016-17	Q3 Finances	Interim 2016-17	Interim vs. Q3	Interim vs. 2016 Budget	Y-O-Y Growth Actual 2015-16 to Interim 2016-17	Average Annual Growth 2013-14 to 2016-17 Interim
Taxation Revenue	91,819	94,787	95,063	**276**	**3,244**	3.5%	5.9%
Federal Transfers	24,644	24,468	24,395	**(73)**	**(249)**	6.7%	3.1%
Income from Government Business Enterprises	5,027	5,212	5,297	**85**	**270**	7.9%	-0.3%
Other Non-Tax Revenue	9,099	8,646	8,473	**(173)**	**(626)**	-3.6%	0.6%
Total Revenue	**130,589**	**133,113**	**133,228**	**115**	**2,639**	**3.8%**	**4.8%**

Interim Fiscal Performance 2011-12 to 2015-16



[1]Represents actual results for 2011-12 to 2015-16

Interim Fiscal Performance ($ Billions)	2011-12	2012-13	2013-14	2014-15	2015-16
Interim Surplus/(Deficit)	**(15.3)**	**(9.8)**	**(11.3)**	**(10.9)**	**(5.7)**
Revenue Changes	0.5	(0.9)	0.3	0.0	1.8
Expense Changes	(1.8)	(1.4)	(0.6)	(0.5)	0.0
Interest on Debt Changes	(0.0)	(0.0)	0.0	(0.0)	(0.2)
Reserve Changes	-	-	-	-	(0.2)
Actual Surplus/(Deficit)	**(13.0)**	**(9.2)**	**(10.5)**	**(10.3)**	**(3.5)**
Total Changes	**2.3**	**0.6**	**0.8**	**0.6**	**2.2**

2016-17 Evolution of Fiscal Performance

$ Billions	2015-16 Actual	2016 Budget	Change from Budget to FES	2016 FES	Change from FES to Q3	Q3 2016-17
Revenue	**128.4**	**130.6**	***2.1***	**132.7**	***0.4***	**133.1**
Expense						
Program Expense	120.9	122.1	*3.1*	125.3	*(2.0)*	123.3
Interest on Debt	11.0	11.8	*(0.4)*	11.4	-	11.4
Total Expense	**131.9**	**133.9**	***2.7***	**136.6**	***(2.0)***	**134.6**
Reserve	-	1.0	*(0.6)*	0.4	-	0.4
Surplus/ (Deficit)	**(3.5)**	**(4.3)**	***0.0***	**(4.3)**	***2.4***	**(1.9)**

Note: Numbers may not add due to rounding.