Confidential **October 3, 2016**

2015-16 ANNUAL REPORT

Issue: What is reported in the 2015-16 Annual Report and unaudited Consolidated Financial Statements tabled on October 3, 2016?

KEY MESSAGES:

- The Annual Report for Ontario show Ontario's deficit for 2015-16 is $5.0 billion. This result is $3.5 billion lower than planned in the 2015 Budget and $0.7 billion lower than the 2016 Budget interim projection.

- In preparing the 2015–16 Annual Report and unaudited Consolidated Financial Statements, a decision was made to implement legislation to reflect a change in the government's accounting policy for pension assets, which adjusted the Province's accumulated deficit by $10.7 billion.

- The legislated accounting change impacts the 2015-16 results only. The comparative results for 2014–15 have not been restated in this Annual Report and unaudited Consolidated Financial Statements which preserves the long-term comparability of year-over-year financial results and balances.

- This marks the seventh year in a row that Ontario has beaten its deficit target.

- Ontario remains committed to balancing the budget in 2017-18, and remained balanced in 2018-19.

- To help Ontarians better understand their government's finances, new digital tools have been developed that present the Annual Report data in innovative, visual formats. These tools make Ontario's finances easier to understand, access, and use, and are part of Ontario's commitment to Open Government.

- The government will continue to build on its track record of responsible fiscal management.

- 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.

BACKGROUND:

Revenue Highlights

Against 2015 Budget:

- Revenues for 2015-16 came in at $128.4 billion, $4.0 billion or 3.2 per cent higher-than-forecast in the 2015 Budget. This was largely due to higher than projected taxation revenues and net revenues arising from the completion of the first phase of broadening Hydro One ownership. Government of Canada transfers were close to the 2015 Budget plan.

Against the Interim Estimates in the 2016 Budget:

- Revenues for 2015-16 came in at $128.4 billion, $1.8 billion or 1.4 per cent higher-than-interim forecast in the 2016 Budget. This was largely due to higher than projected taxation revenues; net revenues arising from the completion of the first phase of broadening Hydro One ownership; and slightly higher revenue from other sources. Government of Canada transfers were close to the 2016 Budget interim forecast.

Expense Highlights

Against the 2015 Budget plan:

Total expense in 2015-16 was $133.4 billion, which was $1.5 billion higher than the 2015 Budget plan. Program spending was $122.4 billion, up by $1.9 billion from planned spending of $120.5 billion largely due to higher than planned spending in the health, community and social services, and justice sectors, as well as a $1.5 billion increase in pension expense as a result of accounting policy change in pension assets. Interest on debt was $11.0 billion, lower by $0.4 billion from planned interest expense of $11.4 billion in the Budget plan.

Against the interim Estimates in the 2016 Budget:

- Total expense in 2015-16 was $133.4 billion or $1.3 billion higher than interim forecast in the 2016 Budget. Program spending was $122.4 billion or $1.5 billion higher than the interim forecast in the 2016 Budget, primarily due to a $1.5 billion pension related adjustment. Interest on debt was $11.0 billion, lower by $0.2 billion from interim forecast of $11.2 billion in 2016 Budget.

Net Debt

- Net debt as of March 31, 2016, was $305.2 billion, $6.3 billion higher than forecast in the 2015 Budget. Excluding the impact of the pension related adjustment, net debt was $4.3 billion lower than forecast in the 2015 Budget. Net debt grew by $20.6 billion during the year, representing a $21.6 billion increase in liabilities that was partially offset by a $1.0 billion increase in financial assets.

Commented [NP1]: Update for some assets being left on the B/S (perhaps)

Trillium Trust

- Volume 1 of the Annual Report includes disclosures related to amounts allocated to the Trillium Trust account which totalled $1.35 billion as at March 31, 2016.

- A footnote in Volume 1 also provides disclosure reflecting that in August 2016, the Province filed a regulation crediting an additional $3.2 billion to the Trillium Trust related to the sale of Hydro One common shares which occurred in 2015–16.

Transparency and Accountability

- The 2015-16 FSD&A includes discussion of the basis of reporting used to prepare the Province's unaudited consolidated financial statements which is in accordance with legislation and public sector accounting standards developed by the Public Sector Accounting Board (PSAB) of CPA Canada.

- PSAB's current conceptual framework project which is noted as it could significantly impact future accounting standards in Canada.

- This year's narrative also includes additional discussion on pension related uncertainties. Specifically, the Introduction to the Annual Report highlights an area of interest to both the Auditor General and the Province which could materially impact the financial results of the Province in the future. The Introduction addresses uncertainty in measuring pension related obligations and asset values, and the plan to work with the Auditor General in a review of pension related balances for jointly sponsored pension plans (OTPP and OPSEUPP).

Timelines of Tabling

Due to unresolved differences of opinion regarding the appropriate accounting for pension assets on the Province's books, the audit of the 2015-16 Public Accounts was not completed in time to enable tabling by the statutory date of September 27th. The Minister of Treasury Board Secretariat advised the House through a point of order that the Public Accounts were going to be delayed and directed Ministry officials to work with the Auditor General to finalize the Public Accounts as soon as possible.

Following an agreement with the Auditor General on resolution of accounting for the pension assets on the Province's books in 2015-16, a regulation was passed on September 28th and the Annual Report and unaudited Consolidated Financial Statements were prepared on a basis of legislation and PSAB. The Management Letter of Representation was finalized and the Annual Report completed for production shortly thereafter.

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Date Prepared: October 3, 2016
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Reviewed by: Emilie Smith, TBS Communications Branch
Approved by: Cindy Veinot, ADM, Office of the Provincial Controller

Appendix

Preparation and Tabling:

The Public Accounts for each fiscal year are prepared under the direction of the President of Treasury Board, as required by the *Financial Administration Act*.

The Public Accounts of Ontario consist of the Annual Report and 3 supplementary volumes. The Annual Report includes the province's audited consolidated financial statements and a financial statement discussion and analysis section. Supplementary information is contained in three volumes:

Volume 1: Ministry statements for expenses, assets, revenue, detailed debt and other supplementary schedules. It provides a comparison of appropriations with actual spending.
Volume 2: Financial statements of significant provincial corporations, boards, commissions that are part of the government's reporting entity, and other miscellaneous statements.
Volume 3: Detailed schedules of payments made by ministries to vendors and transfer payment recipients.

The *Financial Administration Act* requires the President of Treasury Board to submit the province's Annual Report and consolidated financial statements to the Lieutenant Governor in Council (LGIC) on or before 180 days after fiscal year-end. This year, the deadline is September 27th, 2016.

The process for release of the Public Accounts is as follows:

- The Public Accounts are approved by the Lieutenant Governor in Council.
- The LGIC lays the Public Accounts before the Assembly, if the Assembly is in session, and the Public Accounts are then released on the same day.
- If the Assembly is not in session on the day of the release of the Public Accounts the LGIC is required to make the Public Accounts public and the Public Accounts are laid before the Assembly <u>on or before</u> the tenth day of the next session.