2016–17 PUBLIC ACCOUNTS

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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, 2017, in accordance with the requirements of the *Financial Administration Act*.

Respectfully submitted,

Original signed by

The Honourable Liz Sandals
President of the Treasury Board
Toronto, XXX

Original signed by

The Honourable Charles Sousa
Minister of Finance
Toronto, XXX

Contents

CONSOLIDATED FINANCIAL STATEMENTS

Foreword

[PENDING: TBS Minister’s office]

Original signed by

The Honourable Liz Sandals
President of the Treasury Board

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. Ontario's consolidated financial statements presentthe financial results for the 2016–17 fiscal year against the 2016 Budget approved in February 2016 and the financial position of the government as at March 31, 2017.

Commented [OPCD1]: The b/s is not budgeted, so this wording is more appropriate.

Under the direction of the Minister of Finance, the Office of the Provincial Controller is responsible for the preparation of the government's financial statements and for ensuring that the accounting treatment applied best reflects the underlying economic substance of the government's activities. In doing so, there is an implicit need to apply sound professional judgment to the application of accounting standards to complex transactions, such as pension accounting. This requires careful consideration of the facts and substance of transactions and activities, reference to existing and emerging accounting standards and consultation with standard setters, other jurisdictions and the audit community.

Following last year's Public Accounts which reflected a difference of opinion between the government's accountants and the Auditor General on accounting for jointly sponsored pension plans, the Province engaged an Expert Advisory Panel to provide recommendations on appropriate accounting treatment. Based on the results of the Panel, the Province has restated the results for 2015-16 to eliminate the impact of regulatory accounting which was applied last year to achieve the Auditor General's interpretation of the accounting standards.

As in previous years, the Annual Report also compares the current year's results to the prior year's results and provides a five-year trend analysis for a number of key financial ratios. For comparative purposes, the prior years' results have been restated to reflect a number of accounting policy changes adopted in the current year to enhance transparency and accountability of the Province's financial reports. For additional details on these changes see page XX of this Report, under the section entitled Accounting Changes.

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.

Prior to last year's Public Accounts, Ontario had received 22 years of clean audit opinions on its financial statements. The CD Howe Institute has commented favourably on the transparency and accountability in Ontario's reporting practices in its Public Accounts, Budgets and Estimates. The Auditor General's position on pension accounting for joint sponsored pension plans continues to challenge the accounting practice followed by Ontario since 2001 when the accounting standard for Employee Future Benefits was first adopted, and does not acknowledge the results of the Expert Advisory Panel which concurred with Ontario's accounting treatment.

Commented [OPCD2]: No comment on potential qualification related to IESO at this time.

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.

Original signed by

Cindy Veinot, FCPA, FCA, CMA, CPA (DE)
Assistant Deputy Minister and Provincial Controller
Treasury Board Secretariat

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 disclosures.

Financial Statement Discussion and Analysis

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

- Compares the Province's financial results 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 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 reporting period and its financial position at the end of the 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 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. The results for the current year are presented along with its approved Budget plan as presented on February 25, 2016, and the financial results for the prior fiscal period. The annual surplus/deficit has an impact on the Province's financial position.

- The Consolidated Statement of Financial Position, which reports the Province's assets and liabilities 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, 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, which 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, which 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, which 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 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, market value of investments, contractual obligations and risks. Commentary is also provided on changes to accounting policies in the current year and possible future changes to accounting standards.

Commented [OPCD3]: Where would IESO's rate regulated assets be reported (under financial assets?) Likely should be reported as financial assets since they will be sold to the OPG Trust.

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], outlines the accounting policies and practices used in preparing the financial statements and acknowledges the government's responsibility for financial management systems and controls.

- The Auditor General's Report, which appears on page [XX], 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.

Statement of Responsibility

The Consolidated Financial Statements are prepared by the Government of Ontario in accordance with 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] of this document.

Original signed by	Original signed by	Original signed by
Scott Thompson Deputy Minister Ministry of Finance	Helen Angus Deputy Minister, Treasury Board Secretariat and Secretary of Treasury Board and Management Board of Cabinet	Cindy Veinot Assistant Deputy Minister and Provincial Controller Treasury Board Secretariat
XXX	XXX	XXX

FINANCIAL STATEMENT DISCUSSION AND ANALYSIS

Highlights

2016–17 Financial Highlights[1] ($ Billions)					Table 1
Consolidated Statement of Operations For the fiscal year ended March 31					
				Change from	
	2016 Restated Budget[2]	2016–17 Actual	2015–16 Restated Actual[3]	2016 Restated Budget	2015–16 Restated Actual
Total Revenue (Actual TBD)	**138.4**	**XX**	**136.2**	**XX**	**XX**
Expense					
Programs	129.4	130.1	128.1	0.7	2.0
Interest on debt	12.3	11.7	11.6	(0.6)	0.1
Total Expense	**141.7**	**141.8**	**139.7**	**0.1**	**2.1**
Reserve	1.0	-	-	(1.0)	-
Annual Deficit	**(4.3)**	**XX**	**(3.5)**	**XX**	**XX**
Consolidated Statement of Financial Position As at March 31					
Financial Assets		84.1	84.1		-
Liabilities		384.9	379.5		5.4
Net Debt		**XX**	**(295.4)**		**xx**
Non-Financial Assets		108.0	103.3		4.7
Accumulated Deficit		**xx**	**(192.1)**		**xx**

Note:
1 Numbers may not add due to rounding.
2 Presentation of amounts reported as "Plan" in the 2016 approved Budget have been restated to reflect a presentation change for hospitals, school boards and colleges which are now consolidated on a line-by-line basis, as described in the section entitled Accounting Changes.
3 Actual results for 2015–16 have been restated to reflect both the presentation change as described in footnote 2 as well as the impact of reversing regulated accounting for net pension assets of jointly sponsored pension plans . See the section entitled Accounting Changes.

Comparison to the 2016 Budget plan

The Province of Ontario recorded a deficit of $X.X billion for the 2016–17 fiscal year, an increase/decrease of $X.X billion from the $4.3 billion projected in the 2016 Budget plan (see Table 1).

The variance from plan was due mainly to XXX. Revenues at $ XX billion were $X.X billion above/below forecast, and the net deficit further impacted by higher than planned spending of $0.1 billion.

Despite the challenges stemming from an uncertain global economic setting, Ontario's economy grew, with real gross domestic product (GDP) increasing by 2.7 per cent in 2016, above the forecast of 2.2 per cent in the 2016 Budget. [OEP]

Commented [OPCD4]: If to be updated, insert OEP to update

Total revenue for 2016-17 came in at $XX billion, which was $XX billion higher/lower than forecast in the 2016 Budget plan. This was largely due to higher/lower-than-expected taxation revenues and [other attributing factors …].

Total spending for 2016-17 came in at $141.8 billion, which was $0.1 billion higher than forecast in the 2016 Budget plan. [PEMD -To update the program expense impact of $0.7 billion] Interest on debt expense was $0.6 billion below plan in 2016-17, due maintly to lower-than-forecast interest rates, and cost-effective borrowing and debt management. [OFA to update, including reference to deficit]

[...] [PEMD – to update year-end savings target and relevant program expense lines attributable to the savings]

Commented [OPCD5]: This will be available to include in 1st distribution?

Comparison to the 2015–16 fiscal year

Provincial revenues increased/decreased by $XX billion, or XX per cent, over the previous year (see Table 1). This increase/decrease was due in part to nominal GDP growth of x.x per cent, which contributed to higher/lower taxation revenues. [OEP – to be updated] […] to include reference to transfers from government results if applicable]

Commented [OPCD6]: Not sure what this means (federal transfers?)

Also contributing to the change in year-over-year revenues was the completion of the second phase of Hydro One share sales during 2016-17. This transaction and its fiscal impacts are discussed in more detail in “Electricity sector revenues” on page [XX]. [OPCD/OEP – to be updated],

Year-over-year, total spending rose by $2.1 billion, or 1.5% per cent, going from $139.7 billion to $141.8 billion. Increases in the health care, education, postsecondary and education, and children’s and social services sectors accounted for most of the increase. Interest on debt rose by 1.1% per cent, from $11.6 billion to $11.7 billion, reflecting the increase in total debt from 2015-16 to 2016-17. [OFA]

Commented [OPCD7]: OFA to update?

As a result of XX growth in revenue compared to spending, the annual deficit fell/increased from $3.5 billion in 2015–16 to $XX billion in 2016–17, reflecting an improvement/decline of of XX per cent.

Total liabilities increased by $5.4 billion and total financial assets remained unchanged, which results in an increase of $5.4 billion in net debt. [OPCD-To be updated]

Commented [OPCD8]: If these aren’t the numbers, use X.X

The net book value of capital assets such as roads and bridges owned by the Province grew by $4.7 billion during the year, reflecting new capital investments.

Commented [OPCD9]: If this is not the number, use X.X.

Commented [OPCD10]: CPD to provide more specific language (for Tuesday release)

The accumulated deficit rose/fell by $X.X7 billion, mainly as a result of the annual deficit of $XX billion and other adjustments.

Cash flow during the year was used mainly to fund the annual deficit of $XX billion, provide $10.7 billion for investment in capital assets, repay maturing debt of $21.9 billion.

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Analysis of 2016–17 Results

Details of 2016–17 Actual Results[1]
($ Billions)

Table 2

	2016 Restated Budget[2]	2016–17 Actual	2015–16 Restated Actual[3]	Change from 2016 Restated Budget	Change from 2015–16 Restated Actual
Revenue (Actual TBD)					
Taxation	91.8	XX	91.8	XX	XX
Government of Canada	25.2	XX	23.2	XX	XX
Income from government business enterprises	5.0	XX	4.9	XX	XX
Donations, fees and other revenues from BPS	7.3	XX	7.5	XX	XX
Other non-tax revenue	9.1	XX	8.8	XX	XX
Total Revenue	**138.4**	**XX**	**136.2**	**XX**	**XX**
Expense					
Health sector	55.8	56.0	55.0	0.2	1.0
Education sector[4]	26.6	26.6	26.0	-	0.6
Postsecondary and training sector	10.2	10.2	9.9	-	0.3
Children's and social services sector	15.8	16.0	15.6	0.2	0.5
Justice	4.5	4.6	4.6	0.1	-
Other programs[5]	16.5	16.7	17.1	0.2	(0.4)
Total Program Expense	**129.4**	**130.1**	**128.1**	**0.7**	**2.0**
Interest on debt	12.3	11.7	11.6	(0.6)	0.1
Total Expense	**141.7**	**141.8**	**139.7**	**0.1**	**2.1**
Reserve	1.0		-	(0.1)	-
Annual Deficit	**(4.3)**	**XX**	**(3.5)**	**XX**	**XX**

Notes:
[1] Numbers may not add due to rounding.
Presentation of amounts reported as "Plan" in the 2016 approved Budget have been restated to reflect a presentation change for hospitals, school boards and colleges which are now consolidated on a line-by-line basis, as described in the section entitled Accounting Changes.
[3] Actual results for 2015–16 have been restated to reflect both the presentation change as described in footnote 2 as well as the impact of reversing regulated accounting for net pension assets of jointly sponsored pension plans . See the section entitled Accounting Changes. [4] Teachers' Pension Plan expense is included in Other programs. In the Consolidated Financial Statements, this expense item appears under the Ministry of Education. Schedule X to the financial statements provides details.
[5] The 2016 Budget included a Year End Savings Target of $800 million as discussed at XX.

Revenue

Comparison to the 2016 Budget plan

In the 2016 calendar year, Ontario's real GDP grew by a solid 2.7 per cent, driven by gains in consumer spending and exports. Growth was above the forecast of 2.2 per cent in the 2016 Budget. [OEP]

Commented [OPCD12]: If these still need to be updated, please use X.X

Revenues for 2016–17 came in at $XX billion, or XX per cent higher/lower than forecast in the 2016 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:

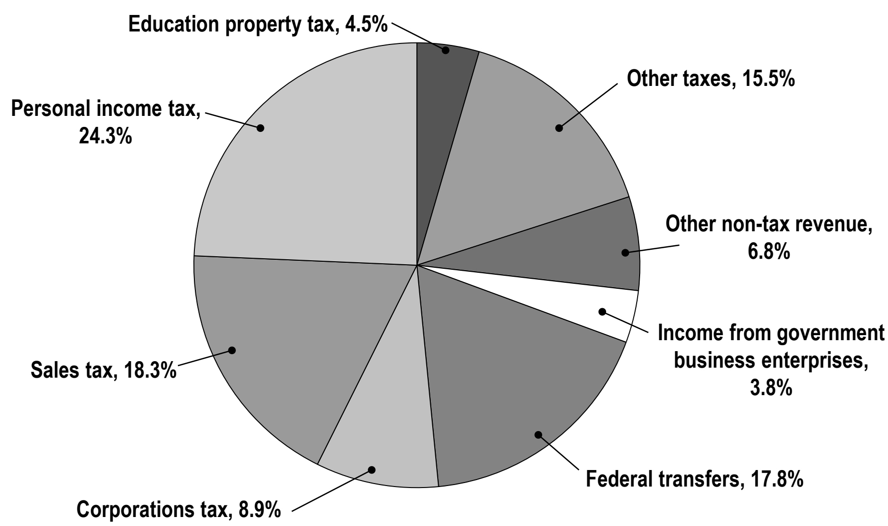
- Taxation revenues were $XX billion, or XX per cent higher/lowere than projected in the 2016 Budget. Personal income tax revenues were $XX billion higher/lower, reflecting […]. [OEP - to be updated]

- Income from GBEs was $XX billion higher/lower, reflecting higher-than-projected returns from […] [OEP - to be updated]

- Other non-tax revenues were $XX billion higher/lower on a net basis, mainly reflecting […]. [OEP/OPCD - to be updated]

Transfers from the Government of Canada were [higher/lower] the 2016 Budget estimate […]. [OEP-To be updated]

2016-17 revenue by source ($xxx billion) **Chart 1**



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

[Chart to be updated]

Comparison to prior year and earlier years [OFA/OEP-To be updated]

Total revenues were up/down $XX billion, or XX per cent, from the previous year.

Excluding the impacts of electricity sector revenues, as discussed below:

- Taxation revenues grew/fell by $XX billion, or XX per cent, reflecting […].
- Net income from GBEs [higher/lower] in 2016–17 by $XX billion, mainly due to […].

[Higher/lower] transfers under the […] transfer programs accounted for most of the $XX billion year-over-year increase in Government of Canada transfers. [explanation to be updated]

Electricity sector revenues [OFA]

Hydro One Secondary Offering

In April 2016, the Province completed a secondary offering of Hydro One common shares. The Province sold 14 per cent of Hydro One's common shares at a price of $23.65 per share, generating gross proceeds of $2.0 billion. The Province reported a gain of $0.5 billion from the offering, and in March 2017, the government credited the Trillium Trust with $0.5 billion. As of March 31, 2017, the Province owned approximately 70 per cent of Hydro One's common shares.

An additional gain of $70 million was deferred in connection with the purchase by Ontario Power Generation (OPG) of nine million Hydro One common shares through the secondary offering. OPG purchased these shares to distribute to eligible employees as part of future share delivery obligations under collective agreements.

Hydro One Brampton Sale

In February 2017, the Province sold its interest in Hydro One Brampton through a sale of shares to Alectra Utilities. As a result of sale, the Province reported a gain of $X.X billion. The government has committed to crediting the net proceeds from the sale to the Trillium Trust.

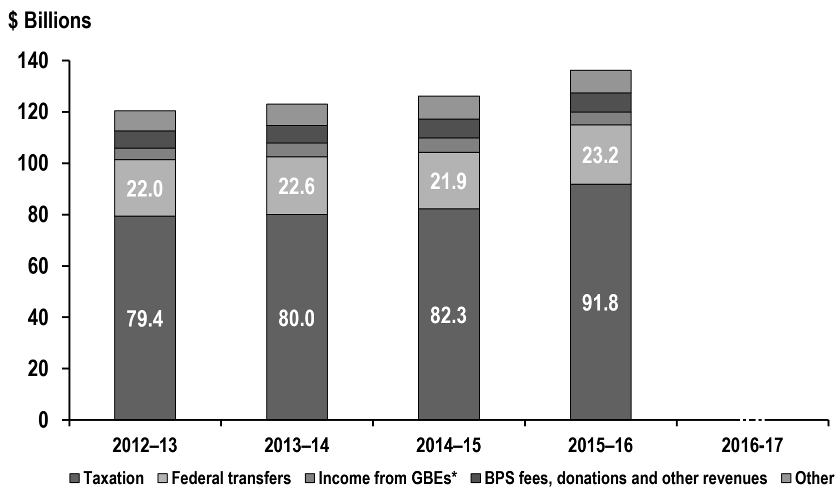
The sale of Hydro One Brampton also triggered a one-time payment-in-lieu of taxes (PILs) of $69 million from Alectra Utilities to the Ontario Electricity Financial Corporation (OEFC), in connection to a step-up in the basis of Hydro One Brampton's assets.

Revenue trend [Chart to be updated]

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 [OEP-To be updated]

Between 2012-13 and 2016-17, taxation revenue grew at an annual average rate of XX per cent, [higher or lower] than the average annual nominal GDP growth of XX 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 2012-13 and 2016-17 reflects a growing economy and the impact of tax measures, as well as measures aimed at tax fairness and addressing the underground economy. Results for 2016-17 reflect …

Other taxation revenues increased […] in 2016–17 compared to the prior year.

Federal government transfers [OEP-To be updated]

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 2012-13 and 2016-17, Government of Canada transfers grew at an annual average rate of XX per cent. […]

Income from government business enterprises [OEP-To be updated]

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.) On XX, the Province sold its investment in Brampton Hydro XX, and on XX, the Province completed the second sale of Hydro One shares as described in XXX [OEP – To update trend analysis]

Fees, donations and other revenues from hospitals, school boards and colleges **[OPCD – To be updated]**

Since 2005-06, the results of BPS organizations (i.e., school boards and colleges, hospitals) have been included in the Province's consolidated statement of operations on a one-line basis. Until this year,third-party revenues earned by these sectors were not presented as revenue on the consolidated statement of operations but rather netted against total expenses of the Ministry of Education and Ministry of Health and Long-Term Care, respectively. In 2017, a decision was made to consolidate hospitals, school boards and colleges on a line-by-line basis. This change to line-by-line presentation has no net impact on the Province's deficit and has been reflected in the 2016-17 Public Accounts. Under line-by-line consolidation, third-party revenues earned by hospitals, school boards and colleges from Government of Canada and the public, such as tuition fees, patient fees, research grants, and other recoveries are now reported and presented together with Provincial revenue and expenses are now reported on a grossed-up basis. This change is further discussed in XXX

Commented [OPCD13]: Accrual accounting

[OPCD – To be updated, fact checking with sector ministries]

Other non-tax revenues [OEP-To be updated]

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 […] , at an annual average rate of XX per cent, between 2012–13 and 2016–17. […]

Expense [PEMD-To be updated]

As described above and in the section entitled Accounting Changes, in 2016-17 the Province changed the consolidation presentation for hospitals, school boards and colleges to report third-party revenues together with provincial revenues and net interest expense incurred by these organizations with Interest on Debt. The total expenses for each of these sectors (health, education and postsecondary and training) are now reported on a grossed up basis as compared to what was published in the 2016 Budget and in the prior year Public Accounts. For comparability and consistency purposes, the prior years' results and the Budgets of the respective sectors have also been restated. As noted above, this presentation change does notimpact on the reported annual deficit.

Comparison to the 2016 Budget plan

Total expense in 2016-17 was $141.8 billion, which was $ 0.1 billion higher than forecast in the 2016 Budget plan. Program spending was $130.1 billion, up $0.7 billion from the forecast of $129.4 billion. Spending in the health, education, postsecondary and training, as well as children's and social services sectors, was higher than planned (see Table 2). See Chart 3 for details of program expense by sector. IOD XXX

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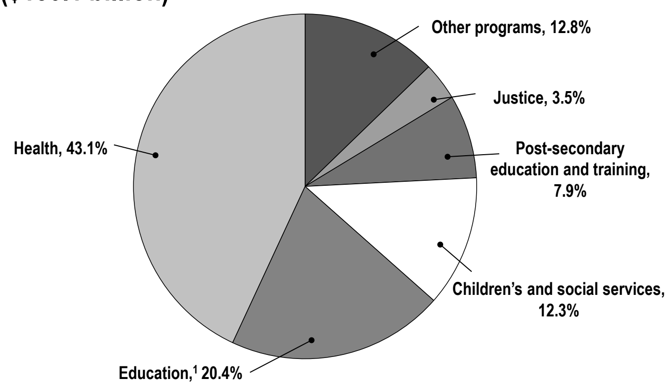
2016-17 program expense by sector ($130.1 billion) **Chart 3**



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

Total program spending was $0.7 billion higher than the Budget plan, resulting in actual program expense of $130.1 billion. The increases were attributable to:

- Health sector expense was $240 million above plan mainly due to […]
- Children's and social services sector expense was $191 million higher than planned, due mainly to […]
- Justice sector expense increases of $101 million, mainly due to […]
- Education sector expense was $35 million higher than expected, due in part to […]
- Postsecondary and training sector expense that was $26 million higher than expected, mainly due to […]
- Other programs expense was $136 million higher than expected, mainly due to […]

[PEMD -To be updated]

As noted in the footnote to Table 2, the 2016 Budget included a Year End Savings Target of $800 million as part of other programs expense. Ministries achieved $XX million in savings against the target which was reallocated to the ministries that achieved savings — notably in […].

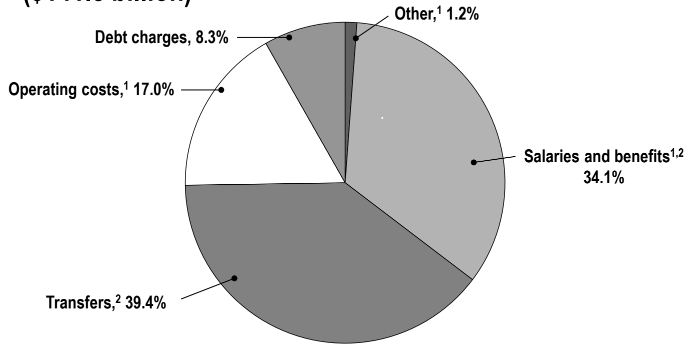
Chart 4 shows spending by type of expense. A significant share of government spending goes directly to salaries and benefits across ministries in the Ontario Public Service and organizations consolidated as part of the government reporting entity, including hospitals, school boards and colleges. Note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

Commented [OPCD15]: To be included in Tuesday distribution?

Commented [OPCD16]: Check wording here compared to last year's report (need to ensure clearly understood by reader)

2016-17 spending by type of expense ($141.8 billion)

Chart 4



[1] Salaries and benefits, Operating costs, Debt charges and Other include consolidated BPS organizations.
[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.

The transfers category reflects payments to a variety of third parties, including non-consolidated entities 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 [PEMD-To be updated]

Commented [OPCD17]: In time for Tuesday distribution?

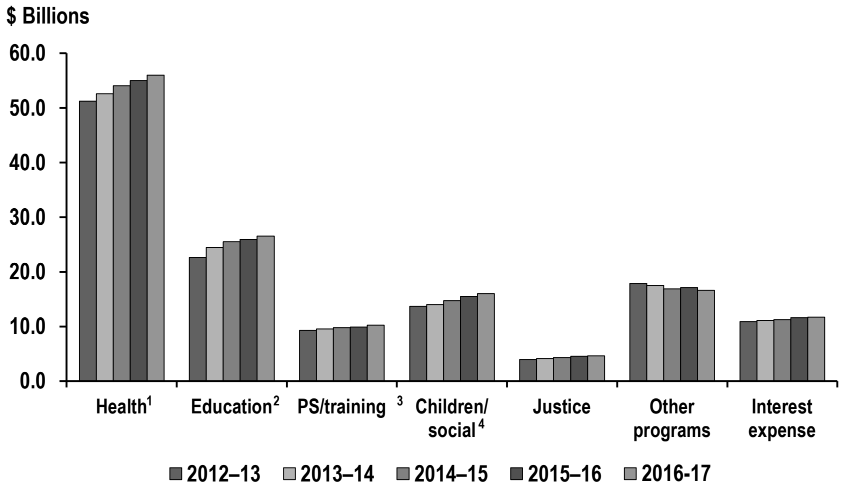
Year-over-year, program spending grew by 1.6 per cent in 2016–17.

Health care represents the largest share of government program spending.[…]. [PEMD to advise wording for this paragraph which talks about the general trend of healthcare spending. Refer to 2015-16 wording for more details.]

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

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] Postsecondary and training.
[4] Children's and social services includes Children's Aid Societies.

- Health sector expense increased from $51.2 billion in 2012–13 to $56.0 billion in 2016–17, or on average by 2.3 per cent per year between 2012–13 and 2016–17. These increases are due in part to […]

- Education sector expense increased from $22.6 billion in 2012–13 to $26.6 billion in 2016–17, or on average by 4.1 per cent per year between 2012–13 and
  2016–17. The increase is mainly due to […].

- Postsecondary and training sector expense increased from $9.3 billion in 2012–13 to $10.2 billion in 2016–17, or on average by 2.4 per cent per year between 2012–13 and 2016–17. The increase is mainly due to […]

- Children's and social services sector expense increased from $13.7 billion in 2012–13 to $16.0 billion in 2016–17, or on average by 3.9 per cent per year between 2012–13 and 2016–17. The increase is mainly due to […]

- Justice sector expense increased from $4.0 billion in 2012–13 to $4.6 billion in 2016–17, or on average by 3.9 per cent per year between 2012–13 and 2016–17. These increases are mainly due to […]

- Other programs expense decreased from $17.9 in 2012-2013 to $16.7 billion in 2016–17. The decrease is mainly due to […]

[PEMD-To be updated]

Interest costs [OFA]

Commented [OPCD18]: OFA to update?

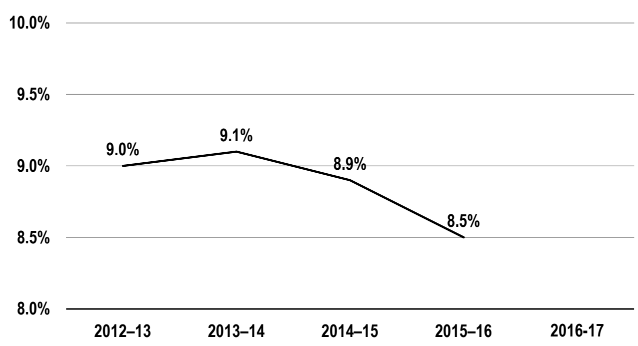
Under line-by-line consolidation of BPS organizations, net interest expense on the debt of hospitals, school boards and colleges previously reported as a expense in their respective sector is now included in the interest on debt expense.

Interest on debt expense was $0.6 billion below plan in 2016–17, as a result mainly of lower-than-forecast interest rates, the lower-than-planned deficit and cost-effective borrowing and debt management.

Interest expense grew from $11.6 billion in 2015–16 to $11.7 billion in 2016–17 (see Table 2).

Between 2012–13 and 2016–17, interest expense has trended upwards, reflecting higher borrowings required to fund the deficit and investments in infrastructure. Chart 6 shows that although interest costs have grown in absolute terms they have steadily fallen as a percentage of the Province's revenues. The interest on debt-to-revenue ratio is now at its lowest level since 1990–91. This is mainly due to historically low interest rates, coupled with cost-effective debt management.

Debt servicing costs to total revenue — 5-year trend Chart 6



[Chart to be updated]

Statement of Financial Position analysis

Financial assets [To be updated]

Financial Assets[1]
($ Billions) — **Table 3**

	2016–17 Actual	**% of Total**	**2015–16 Restated Actual**	**% of Total**	**Variance Increase (Decrease)**
Cash and cash equivalents	15.8	18.8	13.6	16.2%	2.2
Investments	18.0	21.4	21.8	25.9%	(3.8)
Accounts receivable	13.8	16.4	11.1	13.1%	2.8
Loans receivable	11.9	14.1	11.5	13.7%	0.3
Other assets	0.2	0.2	2.6	3.1%	(2.4)
Investment in government business enterprises	24.4	29.0	23.6	28.0%	0.9
Total Financial Assets	84.1	100.0%	84.1	100.0%	-

Note:
[1] Numbers may not add due to rounding.

Financial assets consist of items such as cash and cash equivalents, and investments that are available to the Province to meet its expenditure needs; accounts and loans receivable, which are amounts it expects to receive from third parties; and other items, including investment in GBEs.

Commented [OPCD19]: Will now also include IESO's rate regulated assets? Please check with Bharat.

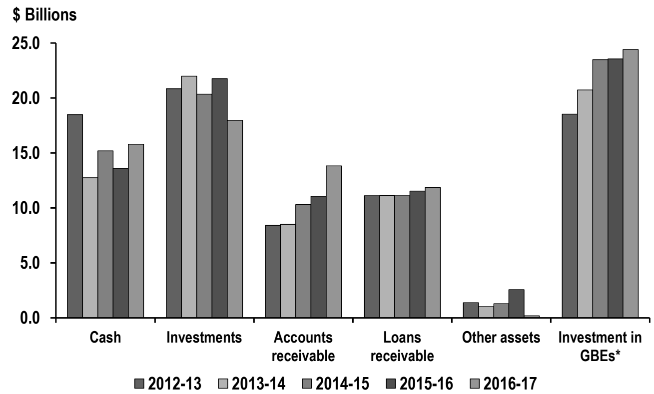
The Province's financial assets increased/decreased in 2016–17 over the prior year. This was mainly due to a $XX billion [increase/decrease] in […] (see Table 3): […]

[OPCD ER-To be updated] [trend analysis to be updated]

[Chart to be updated]

Chart 7 shows the recent trends in financial assets for the Province.

Financial assets — 5-year comparison **Chart 7**



* 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.).

The five-year trend shows […GEBs trend analysis to be updated]

The level of other financial assets, including cash, accounts receivable and investments, tends to be more variable, since these assets often reflect specific circumstances at
year-end, such as pre-borrowing for the following period's needs.

Commented [OPCD20]: See above w.r.t. IESO

Tangible capital assets [CPD-To be updated]

Commented [OPCD21]: CPD to provide updated section to insert for 1st distribution (Vijay)

The government is responsible for a large portfolio of non-financial assets, which is almost entirely made up of tangible capital assets.

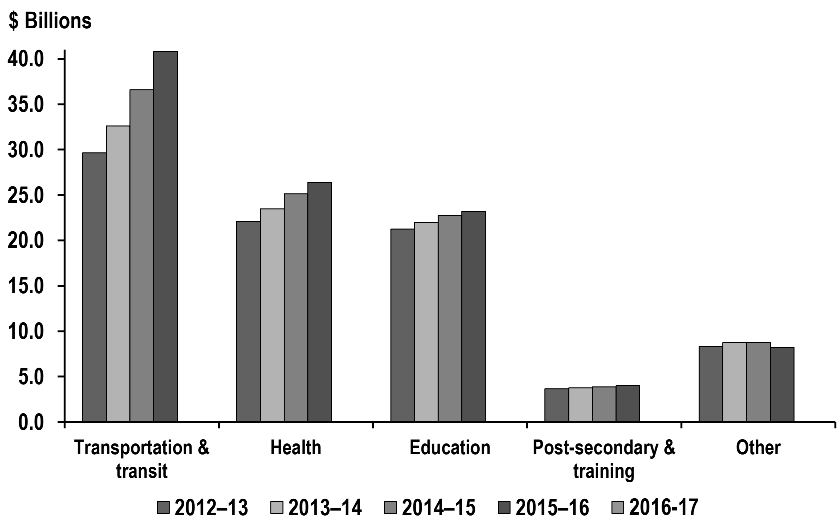
Tangible capital assets owned by the Province and its consolidated entities represent the largest component of the Province's infrastructure investments. These assets include those it owns directly, such as provincial highways, as well as the assets of school boards, hospitals, colleges and agencies that are consolidated in its financial statements. The assets of GBEs are reflected in the Province's statement of financial position as an investment in government business enterprises.

The reported net book value of Ontario's tangible capital assets exceeded $107.3 billion in 2016–17, increasing by $4.7 billion over the prior year. Buildings, including schools, hospitals and college facilities, made up the single largest share, at $XX billion. The total also includes assets under construction, whether these are being built using the Alternative Financing Procurement (AFP) model, which the private sector finances during construction, or by other means. The balance sheet includes AFP assets under construction in accordance with the Province's accounting policy. The impacts of AFPs on balance sheet liabilities are discussed in "Other long-term financing" on page [XX].

Growth in the net book value of capital assets has averaged 6.0 per cent annually over the past five years. Most of the growth has been in new and renewed buildings and in transportation infrastructure, including provincial highways, bridges and the transit network owned by Metrolinx, an agency of the Government of Ontario. See Chart 8 for the recent trends in provincial tangible capital assets.

[Chart to be updated]

Trends in the net book value of provincial tangible capital assets — 5-year comparison **Chart 8**



Infrastructure expenditures [CPD-To be updated]

One of the goals of investing in capital is to improve the economic growth of the province. A 2015 report from The Centre for Spatial Economics, entitled *The Economic Benefits of Public Infrastructure Spending in Canada*, found that, on average, investing $1.00 in public infrastructure in Canada raises GDP by $1.43 in the short term and up to $3.83 in the long term. The full report is available at www.broadbentinstitute.ca/infrastructure.

The Province's infrastructure spending in 2016-17 was $XX billion (see Table 4). This included $XX billion invested in assets owned by the Province and its consolidated entities, as discussed in "Tangible capital assets" on page [XX] and $XX billion provided to non-consolidated partners such as universities and municipalities, and other infrastructure expenditures. The total was [higher/lower] than the $XX billion set out in the 2016 Budget plan because of lower-than-forecast construction activity for the period. [explanation to be updated]

[Table to be updated with CPD input]

Infrastructure expenditures, 2016–17[1] **Table 4**
($ Billions)

Sector	Investment in Capital Assets[2]	Transfers and Other Infrastructure Expenditures[3]	Total Infrastructure Expenditures
Transportation and transit	XX	XX	XX
Health	XX	XX	XX
Education	XX	XX	XX
Postsecondary and training	XX	XX	XX
Other sectors[4]	XX	XX	XX
Totals[5]	**XX**	**XX**	**XX**

Notes:

1 Numbers may not add due to rounding.

2 Includes adjustments for the net book value of assets disposed during the year, as well as changes in valuation.

3 Mainly transfers for capital purposes to municipalities and universities and expenditure for capital repairs. Transfers for capital-related purposes and other infrastructure expenditures are recorded as expenses in the Province's Consolidated Statement of Operations.

4 Includes government administration, natural resources, and culture and tourism sectors. A negative investment in capital assets is due to the transfer of Pan/Parapan American Games assets to third parties.

5 Includes third-party investments in consolidated entities such as hospitals, colleges and schools.

Liabilities [To be updated]

The Province's liabilities consist of debt and other financial obligations, including accounts payable, funds it has received from the federal government but not yet spent and the estimated cost of future payments, including net pension liabilities, owing to current and former employees (see Table 5).

Liabilities[1] **($ Billions)** — **Table 5**

	2016–17 Actual	% of Total	2015–16 Restated Actual	% of Total	Variance Increase (Decrease)
Accounts payable and accrued liabilities	22.5	5.8	19.4	5.1%	3.1
Debt	333.1	86.5	327.4	86.3%	5.7
Other long-term financing	13.7	3.6	14.1	3.7%	(0.4)
Deferred revenue and capital contributions	11.5	3.0	10.8	2.8%	0.8
Pensions and other employee future benefits liability	(0.6)	(0.1)	1.4	0.4%	(2.0)
Other liabilities	4.7	1.2	6.3	1.7%	(1.6)
Total Liabilities	384.9	100.0%	379.5	100.0%	5.4

Notes:
[1] Numbers may not add due to rounding.

Debt [OFA]

Debt and other long-term financing make up the largest share of liabilities. Debt increased by $5.7 billion in 2016–17 to $333.1 billion by year-end, primarily to finance the operating deficit and investments in infrastructure.

Net debt as at March 31, 2017, was $XX billion, $XX billion lower/higher than forecast in the 2016 Budget. Table 6 summarizes how the Province used its net new financing in 2016–17.

Use of new financing by the Province, 2016–17 **($ Billions)** — **Table 6**

Operating deficit and other transactions[1]	(3.8)
Cash invested in capital assets owned by the Province and its consolidated organizations, including hospitals, school boards and colleges[2]	10.7
Increase in the Province's cash and investments	5.1
	12.0
Increase in other long-term financing[3]	0.4
Net new financing	**12.4**

[1] The Province's operating deficit of $XX billion was offset by a net $3.8 billion in changes to assets and liabilities that provided cash for operating purposes. See the Consolidated Statement of Cash Flow.
[2] New investments of $10.9 billion less proceeds of $0.2 billion from the sale of tangible capital assets.
[3] Including net increase in financing of capital projects through AFP. See Note 4 to the Consolidated Financial Statements.

The government completed an annual borrowing program of $27.0 billion in 2016–17. This yielded net new financing of $12.4 billion after adjustments and repayment of $21.9 billion in existing debt that matured. [To be updated]

Commented [OPCD22]: Actuals?

Other long-term financing

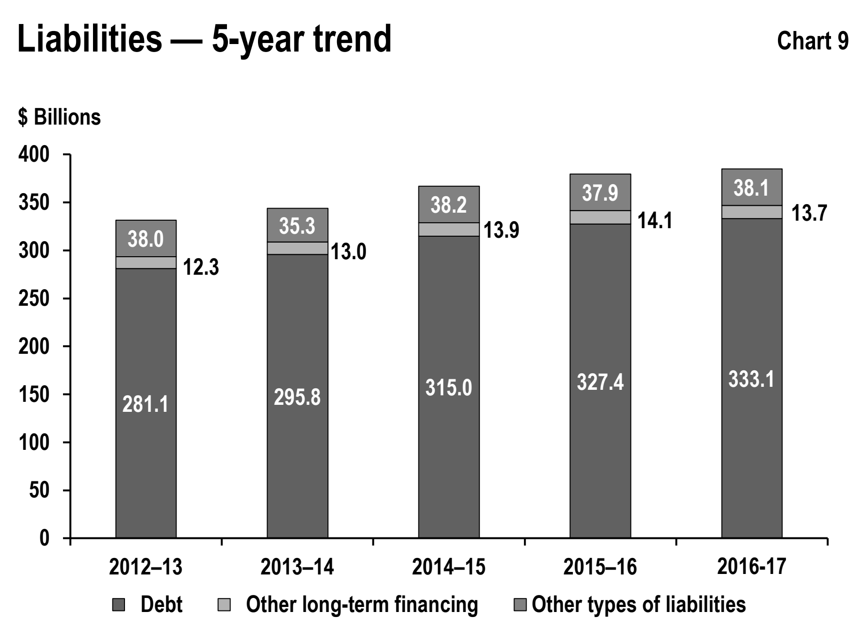
This category includes debt incurred to finance construction for public assets, including those procured through the AFP model and other means. All assets that are owned by the Province and its consolidated entities, and the associated financing liabilities, are reflected on the Province's balance sheet as the assets are constructed and the liabilities incurred. For information on asset investments, refer to "Tangible capital assets" on page [XX].

Other liabilities

Other types of liabilities include accounts payable, pensions and other employee future benefits, transfers received from the federal government representing deferred revenues, and other liabilities.

Chart 9 shows the recent trends in liabilities for the Province. This trend over the period between 2012-13 and 2016-17 shows public debt […]. [OPCD ER-To be updated]

[Chart to be updated]



Risks and risk management

The Province's financial results and financial reporting are subject to risks and uncertainties over which the government has limited or no control. These include:

- Actual economic and/or revenue growth that differs from forecast;
- Significant changes in financial statement items, especially taxation revenues, arising from actual results that differ from accounting estimates;
- Unforeseen changes in transfer payments from the federal government;
- Demand for entitlement-based public services or a change in other expense, including pension expense, that reflects actual experience that is significantly different than forecast;
- Unusual weather patterns, extreme weather events and natural disasters with major financial impacts;
- Security breaches or other malicious behaviour that could interrupt services, result in loss of information, compromise privacy and/or damage equipment or facilities;
- The outcomes of legal settlements, arbitration and negotiations, and possible defaults on projects and potential defaults affecting loan and funding guarantees;
- Financial market conditions, including access to capital markets, currency exchange rates and interest rates, that differ from expectations; and
- Changes in accounting standards.

Ontario manages risks to the revenue forecast by consulting with private sector economists and tracking their forecasts to inform the government's planning assumptions. For prudent fiscal planning, the Ministry of Finance's real GDP growth projections are slightly below the average private sector forecast.

The Province monitors information flows about revenues on an ongoing basis to assess potential risks to its finances. It also works constantly to enhance information flows for the same purpose. Collaboration with the Canada Revenue Agency, which administers roughly XX per cent of Ontario's taxation revenues, is essential to achieving this. As well, Ontario is currently leading a federal, provincial and territorial working group that is exploring ways to enhance corporate income tax revenue forecasting and monitoring. [OEP – To be updated].

The possible impacts on tax revenue of actual growth in the economy and other parameters differing from the assumptions used in the Budget is disclosed on pages 270–275 of the 2016 Budget, which is available at:
http://www.fin.gov.on.ca/en/budget/ontariobudgets/2016/papers_all.pdf

There are also risks arising from other sources of revenue, such as federal transfers and income from GBEs. Because these represent a smaller share of total revenue, the risks they present are generally less material to the revenue forecast and, in any event, are difficult or impossible to predict or quantify. Note 1 to the Consolidated Financial Statements provides additional details on measurement uncertainty.

On the expense side, the fiscal plan includes contingency funds to help mitigate risks.
In the 2016 Budget, these totaled $XX billion: $XX billion for operating risks and $XX million for capital. Funds were used to support initiatives such as […]. [PEMD – to be updated]

Provisions for losses that are likely to occur as a result of contingent liabilities, such as ongoing litigation, and that can be reasonably estimated, are expensed and reported as liabilities. Note 1 to the Consolidated Financial Statements provide further details.

Note 3 to the Consolidated Financial Statements explains the Province's risk management strategies, which are intended to ensure that exposure to borrowing-related risk is managed in a prudent and cost-effective manner.

Changes in Canadian generally accepted accounting principles for the public sector made by the Public Sector Accounting Board (PSAB) can have an impact on the Province's budgets, estimates and actual results. Treasury Board Secretariat actively monitors proposed changes and provides input to standard setters to support development of standards that support sound public policy decision-making and transparency and accountability in reporting.

As required under the *Fiscal Transparency and Accountability Act, 2004*, a reserve is included in the projected surplus/deficit each year to guard against unforeseen revenue and expense changes that could have a negative impact on the Province's fiscal performance. The 2016 Budget plan included a $1.0 billion reserve for 2016–17. Excluding this reserve, the 2016 Budget projected a deficit of $3.3 billion. Because the reserve is a forecast provision, and the fiscal results for 2016–17 are now finalized, a reserve is not reflected in the Province's financial statements. The final deficit for the 2016–17 fiscal year is $XX billion, a $XX billion improvement compared with the 2016 Budget projection of $4.3 billion, which included the reserve. [PEMD/OFA – to confirm if reserve used]

Accounting changes

Changes in Provincial Reporting Policies

The 2016-17 consolidated financial results of the Province will reflect a number of changes consistent with the requirements of Public Sector Accounting Standards (PSAS) and the Introduction to the PSA Handbook. Specifically, the Province's 2016-17 Public Accounts will reflect:

- Recognition of net pension assets for the Province's jointly-sponsored pension plans which include the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan(OPSEUPP);
- A change in the basis of consolidation of the financial results for Ontario Power Generation and Hydro One on the Province's financial statements to reflect International Financial Reporting Standards (IFRS); and
- Line-by-line presentation of the annual operating results for hospitals, school boards and colleges on the Consolidated Statement of Operations.

Accounting for Pensions of Jointly-Sponsored Pension Plans

Consistent with the accounting policy the Province adopted in 2001 for jointly sponsored pension plans and the results of the Pension Asset Expert Advisory Panel,[1] the Province's 2016-17 Public Accounts report the net pension assets for jointly sponsored pension plans, OTPP and OPSEUPP, in accordance with PSAS.

In last year's Public Accounts, the government adopted a time-limited regulatory amendment to reflect the Auditor General's interpretation for the treatment of net pension assets for 2015-16 (the "Pension Adjustment"), and subsequently established an independent Pension Asset Expert Advisory Panel[2] to further analyse and confirm the appropriate accounting policy for the Province's jointly-sponsored pension plan.

Earlier this year, the Panel released its report[3] and recommendations related to the accounting for OTPP and OPSEUPP which concluded that the net assets for the jointly sponsored plans should be recognized on the Province's financial statements. The government accepted the Panel's advice which is reflected in the Province's consolidated financial statements for 2016-17.

Pension Asset Expert Advisory Panel's Advice

1 https://news.ontario.ca/tbs/en/2016/11/pension-asset-expert-advisory-panel-members.html
2 https://news.ontario.ca/tbs/en/2016/11/pension-asset-expert-advisory-panel-members.html
3 https://www.ontario.ca/page/pension-asset-expert-advisory-panel-report

The panel's report concluded that the province's share of the net pension assets of both the OTPP and the OPSEUPP should be recognized as an asset in Ontario's financial statements.[4]

The Panel subsequently reviewed the Province's accounting for Healthcare of Ontario Pension Plan (HOOPP)and Colleges and Applied Arts and Technology Pension Plan (CAATPP). The Panel concluded that based on the difference in the governance structure of these plans as compared to OTPP and OPSEUPP, a full valuation allowance should be applied to any net pension asset for CAATPP or HOOPP. To date, no net pension asset has been reported under either HOOPP or CAATPP; however, it is possible that a net asset may result in future years for one or both plans. Based on the Panel's recommendations, under the current governance structure for these plans, a full valuation adjustment would be reported against the net pension asset.

Commented [OPCD23]: Wording should be reviewed by Alex Killoch prior to release

Accounting for Government Business Enterprises

The financial results of the Province's investments in rate-regulated Government Business Enterprises as at March 31st (Ontario Power Generation Inc. and Hydro One Ltd.) are consolidated in the Province's consolidated financial reports under the modified equity method as required by PSAS. As permitted by securities regulators, the entities' stand-alone financial statements are reported based on Generally Accepted Accounting Principles in the United States (US GAAP). Under PSAS, the results of government business enterprises are required to be reflected on the Province's financial statements based on International Financial Reporting Standards (IFRS). As of April 1, 2016, the Province has consolidated the results of these two rate-regulated entities as they would be reported under IFRS (including IFRS 14 – Regulatory Deferral Accounts). While the impact of this change on the Province's 2016–17 results is not material, differences between US GAAP and IFRS-based results for future reporting periods are expected to be significant. The entities themselves will continue to issue financial statements prepared on a US GAAP-basis.

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Presentation of Hospitals, School Boards and Colleges

Starting with the 2016–17 Public Accounts, the Province's Statement of Operations reflects the revenues and expenses of hospitals, school boards and colleges on a line-by-line basis. Previously, the results of these sectors were presented on a 'net-expense' basis which netted third-party revenues against the respective sectors' expenses. This change in presentation does not impact the Province's reported net annual surplus or deficit; however, third-party revenues are now reported together with other government revenues and are no longer be netted against sector expenses which are presented on a gross-basis.

[4] https://news.ontario.ca/tbs/en/2017/02/pension-asset-expert-advisory-panel-submits-report.html

Key Financial Ratios [OFA]

The use of key measures of financial position helps readers of the Annual Report assess the financial position of the Province. Through the levels and trends of these measures, readers are able to gauge the impacts of economic and other events on the Province's finances, as well as how the government has responded.

The Public Sector Accounting Board recommends a series of ratios that help financial statement users better understand the sustainability, flexibility and vulnerability of a reporting entity.

For greater transparency and accountability, the Province has expanded the number of ratios on which it reports. The ratio, and the level of each, over the past five years are outlined in Table 7. As noted under XX, for analysis purposes, the results for prior years have been restated to reflect the changes in Accounting Policy as described under XX.

Key Financial Ratios — **Table 7**

as at the end of the fiscal period

		Restated 2012–13	Restated 2013–14	Restated 2014–15	Restated 2015–16	2016–17
Sustainability	**Net Debt to GDP (%)**	37.2%	38.6%	39.5%	39.5%	XX
	Net Debt to Total Revenue (%)	210.1%	217.9%	226.1%	216.9%	XX
	Net Debt per Capita ($)	$ 18,718	$ 19,644	$ 20,746	$ 21,219	$ XX
Flexibility	**Debt Charges to Total Revenue (%)**	9.0%	9.1%	8.9%	8.5%	XX
	Own-Source Revenue to GDP (%)	14.5%	14.5%	14.4%	15.1%	XX
Vulnerability	**Federal Transfers to Total Revenue (%)**	18.3%	18.4%	17.4%	17.0%	XX
	Foreign Currency Debt to Total Debt (%)	24.3%	22.9%	20.9%	18.8%	XX
	Unhedged Foreign Currency Debt (%)	0.7%	0.5%	0.3%	0.3%	XX

Measures of sustainability

Net debt provides a measure of the future government revenues that will be required to pay for the government's past transactions. Net debt as a percentage of the Province's GDP shows the financial demands on the economy resulting from the government's spending and taxation policies. A lower ratio of net debt-to-GDP indicates higher sustainability.

The Province's net debt-to-GDP ratio was XX per cent at the end of fiscal year 2016–17. Between 2012–13 and 2016–17, because net debt grew more quickly than GDP, the ratio increased from 37.2 per cent to to xx per cent.

The government continues to maintain a target of returning net debt to GDP to the pre-recession level of 27 per cent. The first key step in achieving this is to balance the budget. Debt is incurred for two main reasons: to finance deficits and to invest in capital assets. The government plans to invest $156 billion in capital over 10 years. These capital investments will be amortized over a period of time that corresponds to the useful life of the assets. After balancing the budget, increases in debt will be limited to the difference between the cash investment to build the assets and the amortization, which is a non-cash amount.

The government's plan to reduce the ratio of net debt to GDP therefore hinges on both balancing the budget and investing in capital assets to help the economy grow, both of which will help achieve the 27 per cent target.

The ratio of net debt to total revenue is another measure of sustainability, since it shows the future revenue that is required to pay for past transactions and events. A lower net debt-to-revenue ratio indicates higher sustainability. In 2012–13, the ratio was 210.1 per cent. It rose to 226.1 per cent in 2014–15, as net debt grew more quickly than revenue. Even with the change in the accounting treatment for pension assets, the ratio fell to XX per cent in 2016–17, indicating that total revenues increased at a greater rate than did net debt.

Measures of flexibility

The ratio of interest on debt to total revenue shows the share of provincial revenue that is being used to pay borrowing costs and is thus not available for programs. A lower ratio indicates that a government has more flexibility to direct its revenues to programs. The ratio has steadily fallen for Ontario over the past five years, from a high of 9.0 per cent in 2012–13 to the current level of XX per cent. The Province's strategy of extending the term of its borrowing program and locking in low interest rates for a longer period has also contributed to lower interest costs. This strategy has extended the weighted average term to maturity of provincially issued debt from approximately eight years in 2009–10 to 14 years in 2015–16.

Own-source revenue as a share of the provincial GDP shows the extent to which the government is using funds from the provincial economy collected through taxation, user fees and other revenue sources it controls. Too high a taxation burden makes a jurisdiction uncompetitive, so increases in the ratio can reduce future revenue flexibility. Ontario's ratio was stable between 2011–12 and 2014–15. The increase from 15.1 per cent in 2015–16 to XX per cent in 2016–17 was largely due to the strong growth in tax and other revenues. This caused own-source revenues to increase more sharply than GDP.

Measures of vulnerability

Transfers from the federal government as a percentage of total revenue are an indicator of the degree to which the Province relies on the federal government for revenue. A very high ratio shows that a provincial government is very reliant on federal transfers, a source of revenue over which it has limited or no control, and therefore vulnerable to shifts in federal policy on transfers. Ontario's highest share of revenue from federal transfers in the past five years was XX per cent, in 201X–1X. The lowest was XX per cent, in 201X–1X. The gradual decline largely represents the expiration of time-limited federal transfers, including the HST transition payment, and the maturing of federal stimulus programs put in place following the global economic crisis in 2008. [to be updated]

Foreign currency debt to total debt is a measure of vulnerability to changes in foreign currency exchange rates. Accessing borrowing opportunities in foreign currencies allows Ontario to diversify its investor base and take advantage of lower borrowing costs. It also ensures that the Province will continue to have access to capital in the event that domestic market conditions become more challenging. Ontario manages foreign currency risk by hedging its exposure to Canadian dollars through the use of financial instruments, which is called hedging. Effective hedging has allowed the Province to consistently limit its exposure to foreign currency fluctuations to 0.7 per cent of debt issued for provincial purposes in 2012–13, declining to XX per cent in 2016–17. [to be updated]

Responsible Fiscal Management [MOF-To be updated]

The 2016–17 annual deficit of $XX billion was higher/lower of $XX billion than the $4.3 billion deficit target laid out in the 2016 Budget. As a result, Ontario has achieved better-than-planned results in each of the last XX years. (TBD)

Commented [OPCD25]: Fix alignment please

The government's record of strong fiscal management is due to an ongoing focus on managing growth in spending, as well as stimulating the economy and protecting revenue.

After declines in revenue in 2008–09 and 2009–10, paralleled by poor economic conditions in those years, Ontario's economic and revenue performance have shown steady gains. Ontario's economic recovery from the global recession has been driven by solid economic fundamentals, supported by long-term job recovery efforts such as significant infrastructure investments. Over the past four years, revenue has grown at an average annual rate of 4.0 per cent, while nominal GDP has grown at an average annual rate of 3.2 per cent. [TBS Communications – to be updated]

To protect provincial revenues, better support consumer and work safety, and provide a level playing field for legitimate businesses, the government has focused on fighting underground economic activities. As noted in the 2017 Budget, Ontario has generated over $1.2 Billion since 2013–14 through ongoing enhanced compliance-focused measures.

Government action to manage growth in spending has achieved results. Program expense fell to XX per cent of GDP in 2016-17, lower than the 17.9 per cent reached in 2009-10. Ontario also consistently has the lowest per-capita program spending among all Canadian provinces.

Program Review, Renewal and Transformation [MOF – to be updated]

~~Part of the reason for this success has been the Program Review, Renewal and Transformation initiative, the government's ongoing fiscal planning and expenditure management approach and a continuous review of programs. PRRT is helping the government achieve better program outcomes while also lowering costs.~~

~~To improve programs, PRRT focuses on evidence-based decision-making, gathering and analyzing the best available information to improve how planned outcomes are identified and achieved across government. This may mean redesigning policies to support greater efficiency and cooperation within government, modernizing program delivery and changing or ending programs that do not meet people's needs. The government met the $XX million program review savings target for 2016–17. To meet this target, the government achieved a number of efficiencies to make programs more sustainable, such as negotiating lower prices for goods and services and managing compensation.~~

~~Some examples of program transformation from PRRT that have resulted in savings include:~~

- ~~Making changes to the Ontario Drug Benefit Program to improve program efficiency, effectiveness and sustainability. This has enabled the government to achieve savings of approximately $100 million in 2015–16 and will enable over $200 million in annual savings when fully implemented. Changes include optimizing the quantities of medication dispensed and maximizing the use of generic drugs. Savings are reflected in the Ministry of Health and Long-Term Care and Ministry of Community and Social Services expense lines for 2015–16 results.~~

- ~~Continuing to reduce the government's office footprint, to optimize the use of government real estate and drive government-wide cost reductions, achieving savings of approximately $24 million in 2015–16. Savings are reflected in various ministry expense lines for 2015–16 results.~~

- ~~Undertaking a series of initiatives that are lowering information technology (IT) costs and improving how technology supports the delivery of government programs and services, based most recently on a 2015 third-party independent benchmarking review of the government's IT capability. Savings in the amount of $56 million (including consolidation of data centres, early vendor payments and lower contract costs, including for software and IT consulting services, laboratory supplies and security services) are reflected in various ministry expense lines for 2015–16 results.~~

- ~~Reduced costs associated with managing under-utilized schools, by encouraging school boards to consolidate schools, share space with other boards and foster community partnerships.~~

- ~~Better targeted funding through business support programs such as the Ontario Interactive Digital Media Tax Credit, in which the government narrowed the broad eligibility criteria to improve the ability of the credit to support innovative products.~~

- ~~Changes to the Second Career program by removing client targets for service providers, while ensuring that funding supports all eligible clients. These changes are generating approximately $40 million per year in ongoing savings and will enable the government to invest in the Canada–Ontario Job Grant and the renewed Ontario Youth Jobs Strategy.~~

~~The government has also established a new Centre of Excellence for Evidence-Based Decision Making to build capacity to assess how programs are performing, using evidence to inform choices and lead change in critical public services.~~ [MOF – to be updated]

Managing compensation [MO – to be updated]

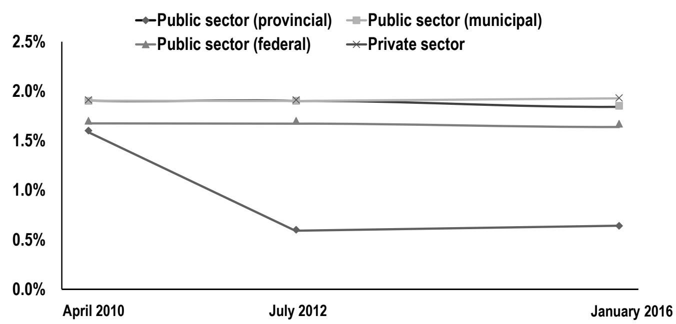
~~With a significant share of resources going to salaries and benefits, managing compensation costs is critical to balancing the budget.~~

~~The 2015 Budget stated that compensation costs must be addressed within Ontario's fiscal framework, which does not include additional funding for wage increases. Collective bargaining during this fiscal year continued to be subject to the principles of the net-zero compensation framework, in which any modest wage increases were required to be offset.~~

~~Chart 10 shows that the average percentage annual wage increase of the Provincial public sector has trended lower than increases in the municipal and federal public sectors and the private sector~~.

[Chart to be updated]

Ontario public/private wage settlement trends — **Chart 10**



Note: Based on agreements with over 150 employees, ratified between April 1, 2010, and January 13, 2016. April 2010 represents the start of the government's compensation restraint mandate. The period from July 2012 to January 2016 represents the most complete picture of a full bargaining cycle across the public sector. The provincial public sector includes the Ontario Public Service, government business enterprises, provincial utilities and all other provincially funded public employers.

In addition, the interest on debt expense of $11.7 billion reported for 2016–17 was an improvement of $0.6 billion over the forecast in the 2016 Budget. Through a combination
of lower deficits and borrowing requirements, lower-than-forecast interest rates and cost-effective debt management, interest on debt has consistently come in below forecast in each year since the 2010 Budget. [OFA – to be updated]

Commented [OPCD26]: Seems out of place here (under compensation?)

With the economy expected to continue to grow, and the government's ongoing commitment to transform programs and services, Ontario remains committed to balancing the budget by 2017–18 and remaining balanced in 2018–19. [PEMD – to be updated]

Commented [OPCD27]: In time for Monday?

Non-Financial Activities

This section discusses key non-financial performance in major sectors. The purpose is to allow readers of the Annual Report to understand how the government is using the funds available to it to achieve specific outcomes. [PEMD – to be updated]

Health care

[PENDING] [Ministry/PEMD – to be updated]

Education

[PENDING] [Ministry/PEMD – to be updated]

Postsecondary and training

[PENDING] [Ministry/PEMD – to be updated]

Condition of provincial tangible capital assets [MOI – to be updated]

As part of the annual budgeting process, each ministry that owns and operates infrastructure is required to prepare and update a plan to properly maintain its assets. Examples of recent asset management practices include:

- In the transportation sector, over the last five years, there has been a significant improvement in highway pavement and bridge conditions throughout the province as a result of continued investments in these assets.
- In the health sector, the Facility Condition Assessment Program has been conducting standardized technical audits of hospital infrastructure to provide comparable and reliable data about the current stock and condition of public hospital assets. This allows the Province to better target renewal funding and develop a long-term outlook for capital investment requirements.
- In the education sector, the School Condition Improvement Program addresses renewal needs, focusing on ensuring that facilities are in good condition, energy efficient, accessible and meet modern service standards.
- Since 2011, the Province has been working with colleges to create a comprehensive space inventory, develop space standards and assess the condition of their facilities. With improved inventory and facilities condition data, the Province is better able to support asset management initiatives, including forecasting needs and developing a provincial infrastructure asset inventory.

Commented [OPCD28]: See Vijay's submission (not sure which section it would belong in – see John Mace)

- Other provincially owned capital assets include buildings within the government's General Real Estate Portfolio, which consists of offices and special-purpose buildings such as courthouses and detention centres. Facility condition index targets are set for the buildings, and most buildings are currently within the acceptable ranges.

Going forward, the *Infrastructure for Jobs and Prosperity Act, 2015*, which came into force on May 1, 2016, requires that the Province publish a long-term infrastructure plan within three years and that subsequent plans be tabled at least once every five years. The Act also:

- Establishes principles that must be considered by the government and broader public sector entities when making infrastructure decisions, as well as prioritization criteria to be used by the government when considering infrastructure projects.

- Creates regulatory authorities related to broader public sector asset management plans, supporting the use of apprentices on provincial infrastructure projects and promoting design excellence in public works.

- Emphasizes the importance of minimizing environmental impacts and ensuring climate change resiliency in infrastructure planning and investment.

The Act aligns infrastructure investments with Ontario's economic development priorities through long-term planning, while strengthening the Province's competitive edge globally.

Transparency and Accountability

Ontario continues to take steps to enhance government transparency and fiscal accountability in financial reporting.

Recent developments in public sector accounting standards

The Province's financial reports are prepared in accordance with the accounting principles for governments recommended by the Public Sector Accounting Board(PSAB) of the Chartered Professional Accountants of Canada (CPA Canada).

PSAB's project on concepts underlying financial performance remains a work in progress. Ontario, along with other senior Canadian governments, continues to monitor the work of the project's task force and to provide input to support high-quality Canadian public sector accounting standards. As described in Note 17 to the Consolidated Financial Statements, future changes in both public sector and private sector accounting standards may affect how assets, liabilities, revenues and expenses are reported in the Province's consolidated financial reports. Since the conceptual framework is the basis for public sector financial reporting in Canada, any changes to the fundamental framework could result in changes to the way that governments and public sector entities plan and report their activities.

Other current projects which are being closely monitored by Ontario include PSAB's review of its employment benefits standard which includes accounting for pensions, as well as accounting for financial instruments, foreign currency translation, asset retirement obligations, revenue reporting and accounting for public-private partnerships.

The C.D. Howe Institute Fiscal Accountability Report

Each year, the C.D. Howe Institute, an independent research organization supporting economically sound public policies produces a report on its assessment of the fiscal planning and reporting practices of Senior Canadian governments.

The Institute observes that financial reports are a vital tool for understanding governments' financial plans and activities. In this regard, consistency and comparability of planned and actual results in the Budget, Estimates and summary financial statements of the Province are essential to allow users to compare performance against the approved Budget and to understand longer-term trends.

The most recent report assesses the quality of financial information released by Senior Canadian governments and their success or failure in achieving their budgetary goals over the past 15 years.

The Report acknowledges that Ontario scored well with respect to the consistency and accessibility of their headline numbers, but that a qualified audit opinion in 2015/16 precluded overall high marks.

Other Matters

Fair Hydro Plan

In the 2017 Budget, the government proposed the Fair Hydro Plan would reduce electricity bills by 25 percper cent on average for eligible households. Approximately 500,000 small businesses and farms would also benefit.

- Recognizing that existing electricity infrastructure is expected to last for decades to come, the Province would refinance the cost of those capital investments to ensure that system costs are more equitably distributed over time.
- A number of important electricity support programs would now be funded by the Province rather than by ratepayers, which would reduce electricity costs for all consumers.

As at March 31st, the Province had already implemented some of the measures intended to XXX, including:

- establishing the Affordability Fund to provide support to Ontarians who do not qualify for low-income conservation programs so that they can adopt energy efficiency improvements to help reduce their future electricity bills. The fund was developed with input from electricity distributors and other stakeholders; and
- the government had also implemented the XXX and XXX to provide targeted and expanded relief for rural, remote, low-income and First Nation customers.

Commented [OPCD29]: PEMD to complete

Trillium Trust

The *Trillium Trust Act, 2014*, provides for an account to be maintained in the Public Accounts that records the prescribed amounts of financial benefits to Ontario from the disposition of qualifying assets under the Act. The Act also requires the account to record all expenditures made under the Act to support infrastructure investments. A report on the financial activities of the Trillium Trust is included as a schedule in Volume 1 of the Public Accounts.

Volume 1 shows that spending authority of $5.XXX B was available through the Trillium Trust as at March 31, 2017, reflecting an opening balance of $1.35B, $3.xxB credited to the Trust in 2016-17, less expenditures of $270xxxM.

[placeholder for if OFA brings forward another TT reg before Pub Accts is tabled – “subsequent to yearend”…]