
2015–16 PUBLIC ACCOUNTS

[DRAFT FOR DISCUSSION ONLY]

Version 17_September 14

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The Honourable Elizabeth Dowdeswell, OC, OOnt
Lieutenant Governor of Ontario
Legislative Building
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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, 2016, in accordance with the requirements of the *Financial Administration Act*.

Respectfully submitted,

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

The Honourable Charles Sousa
Minister of Finance
Toronto, XXX

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Foreword

Each year, the Province releases the Public Accounts to update Ontarians on our end-of-year financial position. The Annual Report that accompanies the financial statements provides transparency and accountability for the dollars we spend.

I am pleased to present the Public Accounts for the year 2015–16, which confirm that our government's plan to achieve fiscal balance by 2017–18 is working.

At \$5.0 billion, Ontario's deficit is \$3.5 billion lower than projected in the 2015 Budget. This marks the seventh year in a row that Ontario has beaten its deficit target, resulting in an accumulated deficit that is more than \$20 billion lower than projected. These results have increased the 2015–16 net debt-to-GDP ratio to 40.9 per cent, higher than the 39.8 per cent forecast in the 2015 Budget.

When the global economic recession hit, our government made a deliberate choice to invest in our economy and stimulate growth. Since then, Ontario has created almost 600,000 net new jobs and the unemployment rate declined to an eight year low of 6.4 per cent in July 2016. Ontario's economy continues to grow and is expected to remain one of the fastest growing in Canada over the next two years.

Although we have made considerable progress since the recession, there is still hard work ahead to eliminate the deficit. Our government will make the tough but necessary decisions needed to ensure our province continues to grow. As President of the Treasury Board, it is my role to lead this effort and to help create a modern and open government – one that is fiscally responsible, uses evidence to track performance and is focused on results.

In the spirit of openness and increased transparency, this year we have created new visualization tools to help Ontarians understand the Province's finances. To access those new tools, and to see the full Public Accounts online, visit Ontario.ca/publicaccounts.

Making every dollar count

In 2014, we implemented a new fiscal planning and expenditure management approach. Through the Program Review, Renewal, and Transformation (PRRT) process, we are looking across ministries to achieve better value for money.

By prioritizing cross-ministry collaboration in our planning and policy development, we are undertaking major transformation and efficiency initiatives that will help free up resources and allow us to invest in key priorities. This means asking tough questions and making tough choices about services that are not linked to government priorities, serve no clear public interest or fail to achieve their desired outcomes.

For example, transfer payments to organizations that deliver services on behalf of the Province account for approximately 82 per cent of the government's expenditures. The Transfer Payment Administration Modernization (TPAM) project will streamline government transfers to hospitals, school boards, municipalities, non-profits and all other transfer payment recipients. It will not only improve the way we work with these organizations, but

will also make their jobs easier by reducing their administrative burdens. TPAM will also help us get better value for our money by emphasizing data and evidence when making funding decisions.

Making services simpler, faster and easier

Through Ontario's Digital Government strategy, we are modernizing government for the digital age, making services simpler, easier and more convenient for people using technology. This work will improve citizens' online experience with government and deliver better value for public money.

We are also finding innovative ways to support how we drive change across the government. In 2015, we established the Centre of Excellence for Evidence-Based Decision Making. The centre is setting standards for the use of evidence. Its mandate is to build capacity to assess program performance, using evidence to inform choices and lead change in critical public services.

We have deliberately taken a fair and equitable approach, allowing us to continue to make strategic investments in physical infrastructure such as roads and transit, as well as in social capital through the talents and skills of Ontarians, all while protecting the services on which Ontarians rely.

Modern infrastructure and a dynamic business climate

Ontario must build and maintain its infrastructure to remain economically strong and competitive.

The Province is continuing to pursue opportunities to unlock economic value from its assets. Unlocking value from provincial assets is providing resources to invest in new transit and transportation infrastructure, and is helping to expand the economy and improve competitiveness and productivity. In short, it will help to create jobs for Ontarians.

We're investing more than \$137 billion over the next 10 years in public infrastructure such as roads, bridges, public transit, hospitals and schools. This builds on previous commitments, resulting in approximately \$160 billion in public infrastructure investments over 12 years, starting in 2014–15. This is the largest investment in public infrastructure in the province's history. Planned investments would support more than 110,000 jobs, on average, each year.

The government is building the infrastructure that is needed today and tomorrow. These investments will help manage congestion, connect people and improve the economy and Ontarians' quality of life.

In addition, our government continues to create a dynamic and innovative business climate. As of August 31, 2016, the 10-year, \$2.7 billion Jobs and Prosperity Fund is helping to create and retain more than 22,000 jobs and is attracting more than \$2.2 billion in investments. Our government is reducing business costs, keeping tax rates competitive, building strategic partnerships, helping businesses go global, strengthening the financial services sector and investing in training and education.

We have an ambitious agenda to Build Ontario Up. Our balanced budget plan is vitally important, and Public Accounts is the tool by which we report our progress. Working to eliminate the deficit and taking a balanced and disciplined approach to our fiscal plan over the last three and a half years has allowed us to deliver better services and outcomes to Ontarians, and help people in their everyday lives. We are striving to build a province that is the best place to live, from childhood to retirement – a place where everyone has the opportunity to realize their full potential.

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 present the financial results for the 2015–16 fiscal year against the 2015 Budget approved in April 2015 and the financial position of the government as at March 31, 2016.

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, like pension accounting. This requires careful consideration of the facts and substance of transactions and activities, reference to existing and emerging accounting standards, consultation with standard setters, other jurisdictions and the audit community.

Prior to this year's Public Accounts, Ontario had received consecutive 22 years of clean audit opinions on its financial statements. In addition, the C.D. Howe Institute has commented favourably on the transparency and accountability in Ontario's reporting practices in its Public Accounts, Budgets and Estimates. In conjunction with the audit of the 2015–16 Public Accounts, a review was done on the Province's accounting policies for pension assets related to joint sponsored pension plans. The Province's practice, since 2001 when the accounting standard for Employee Future Benefits was first adopted, had previously resulted in pension assets being reported in the Public Accounts since 2001. Following the review, a decision was made to implement a change in the government's accounting policy for pension assets which resulted in an adjustment in the Province's reportable pension assets as at March 31, 2016 to XXX. The impact of the change also resulted in an additional \$1.5 billion change to the reported annual deficit. As a result of this change, the comparative results for 2014–15 have also been restated for purposes of this Annual Report. Similarly, to ensure long-term comparability of year-over-year financial results and balances, the historical results and trends analysis reflected throughout this Financial Statement Discussion and Analysis section of the Public Accounts have been restated to reflect related adjustments. Due to the complex and challenging nature of the specific issue which resulted in these adjustments, and the significance to the Province's financial results and plans, the Province will continue to work with the standard setters, other jurisdictions and the audit community to ensure that pension accounting standards best reflect the underlying economic substance of the government's activities in order to best serve user needs.

A number of enhancements have been made to this year's Annual Report to help users of the consolidated financial statements better understand the impacts of economic conditions and government decisions on the Province's financial results and position.

These enhancements include:

- an expanded comparison of the current year's results to those of the prior year, analysis of trends and key financial ratios over a five-year period, and an expanded discussion on balance sheet items.
- a description of the Province's capital assets, reflecting their importance in service delivery and their impact on the Province's financial condition.
- a discussion of key risks that could impact the Province's financial results.

Producing the Public Accounts of Ontario requires the teamwork and collaboration of many stakeholders across Ontario's public sector. I would like to thank the Standing Committee on Public Accounts, government ministries, Crown corporations and agencies, and the Office of the Auditor General for their cooperation and support in preparing the 2015-16 Public Accounts.

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.

Nadine Petsche MBA CPA CA
Director, Accounting Policy and Financial Reporting
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, in comparison to its approved Budget plan as presented on April 23, 2015, as well as 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 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 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 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 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 tangible capital assets and debt repayment. The statement of cash flows 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 possible future changes to accounting standards.

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 6, 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 Consolidated Financial 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.

Scott Thompson
Deputy Minister
Ministry of Finance

[date]

Greg Orencsak
Deputy Minister, Treasury
Board Secretariat and
Secretary of Treasury
Board and Management
Board of Cabinet

[date]

Nadine Petsche
Director, Accounting
Policy and Financial
Reporting
Treasury Board
Secretariat

[date]

FINANCIAL STATEMENT DISCUSSION AND ANALYSIS

[DRAFT FOR DISCUSSION ONLY]

Highlights

2015–16 Financial Highlights
(\$ Billions)

Table 1

Consolidated Statement of Operations
For the fiscal year ended March 31¹

	2015 Budget	2015–16 Actual	Restated 2014–15 Actual ²	Change from	
				2015 Budget	Restated 2014–15 Actual
Total Revenue	124.4	128.4	118.5	4.0	9.8
Expense					
Programs	120.5	122.4	119.2	1.9	3.2
Interest on debt	11.4	11.0	10.6	(0.4)	0.4
Total Expense	131.9	133.4	129.8	1.5	3.6
Reserve	1.0	-	-	(1.0)	-
Annual Deficit	(8.5)	(5.0)	(11.3)	(3.5)	(6.3)

Consolidated Statement of Financial Position
As at March 31

Financial Assets	83.5	82.5	1.0
Liabilities	388.7	376.2	12.5
Net Debt	(305.2)	(293.7)	11.5
Non-Financial Assets	102.5	97.1	5.4
Accumulated Deficit	(202.7)	(196.7)	6.0

¹ Numbers may not add due to rounding.

² 2014-15 actuals have been restated to reflect a change in accounting policy in the Province's jointly sponsored pension plans.

Comparison to the 2015 Budget plan

The Province of Ontario recorded a deficit of **\$5.0** billion for the 2015–16 fiscal year, an improvement of **\$3.5** billion from the \$8.5 billion projection in the 2015 Budget plan (see Table 1).

The improvement over plan was due to revenues that were \$4.0 billion above forecast, at \$128.4 billion. This was largely due to higher-than-expected taxation revenues and net revenues from the first phase of broadening Hydro One ownership.

Despite the challenges stemming from an uncertain global economic setting, Ontario's economy grew, with real gross domestic product (GDP) increasing by 2.6 per cent in 2015, slightly below the forecast of 2.7 per cent in the 2015 Budget.

Total spending for 2015–16 came in at \$133.4 billion, which was \$1.5 billion higher than forecast in the 2015 Budget plan. This increase from plan was mainly due to the change in the Province’s accounting treatment for accrued pension assets related to jointly sponsored pension plans as explained in Note 18 to the Consolidated Financial Statements.

The government identified and acted on a number of initiatives in the 2015 Budget to modernize public services, improve outcomes for Ontarians and support the Province’s fiscal objectives. Savings from these and other initiatives identified through Program Review, Renewal and Transformation (PRRT) are reflected in all of the program expense lines in the 2015–16 results.

Comparison to the 2014–15 fiscal year

Provincial revenues were up \$9.8 billion, or 8.3 per cent, from the previous year (see Table 1). This increase was due in part to nominal GDP growth of 3.5 per cent, which contributed to higher taxation revenues. Higher transfers from the federal government, particularly Canada Health Transfer, Canada Social Transfer and Equalization payments, also increased revenues.

Also contributing to year-over-year revenue growth was the completion of the first phase of Hydro One share sales in 2015–16 through an initial public offering (IPO). This transaction and its fiscal impacts are discussed in more detail in “Broadening Hydro One ownership” on page 14.

Year-over-year, total spending rose by \$3.6 billion, or 2.8 per cent, going from \$129.8 billion to \$133.4 billion. Increases in the health care, children’s and social services, and justice sectors, as well as other program areas, accounted for most of the increase. Interest on debt rose by 3.1 per cent, from \$10.6 billion to \$11.0 billion, reflecting financing costs for the Province’s debt. In addition, the change in the Province’s accounting treatment for pension assets accounted for \$1.5 billion towards the year-over-year variance.

As a result of stronger relative growth in revenue than in spending, the annual deficit fell from \$11.3 billion in 2014–15 to \$5.0 billion in 2015–16, reflecting an improvement of 55.4 per cent.

The Province’s net debt, the difference between its liabilities and its financial assets, grew by \$11.5 billion during the year, representing a \$12.5 billion increase in liabilities, including \$1.5 billion related to the accounting policy change for pension assets. The increase in net debt was partially offset by a \$1.0 billion increase in financial assets.

The net book value of tangible capital assets such as roads and bridges owned by the Province grew by \$5.4 billion during the year, reflecting new capital investments. The accumulated deficit rose by \$6.0 billion, mainly as a result of the annual deficit of \$5.0 billion and other adjustments. The change in accounting treatment for jointly sponsored pension plans accounted for \$1.5 billion of the increase in the accumulated deficit.

Cash flow during the year was used to fund the annual deficit of \$5.0 billion, provide \$10.9 billion for investment in capital assets, repay maturing debt of \$21.9 billion and cover other cash items. These needs were partly covered with funds borrowed before the end of 2014–15, including pre-borrowing for 2015–16, for a total of \$12.4 billion in new financing.

Analysis of 2015–16 Results

Details of 2015–16 Actual Results ¹ (\$ Billions)				Table 2	
	2015	2015–16	Restated	Change from	
	Budget	Actual	2014–15 Actual ²	2015 Budget	Restated 2014–15 Actual
Revenue					
Taxation	87.4	91.8	82.3	4.4	9.5
Government of Canada	22.9	22.9	21.6	-	1.2
Income from government business enterprises	4.8	4.9	5.6	0.1	(0.7)
Other non-tax revenue	9.3	8.8	9.0	(0.5)	(0.2)
Total Revenue	124.4	128.4	118.5	4.0	9.8
Expense					
Health sector	50.8	51.1	50.0	0.3	1.1
Education sector ³	25.2	25.0	24.6	(0.2)	0.4
Post-secondary and training sector	7.8	7.6	7.7	(0.2)	(0.1)
Children's and social services sector	15.4	15.5	14.7	0.1	0.8
Justice	4.4	4.5	4.3	0.1	0.2
Other programs ⁴	16.8	18.6	17.8	1.8	0.8
Total Program Expense	120.5	122.4	119.2	1.9	3.2
Interest on debt	11.4	11.0	10.6	(0.4)	0.4
Total Expense	131.9	133.4	129.8	1.5	3.6
Reserve	1.0	-	-	(1.0)	-
Annual Deficit	(8.5)	(5.0)	(11.3)	(3.5)	(6.3)

¹ Numbers may not add due to rounding.

² 2014-15 actuals have been restated to reflect a change in accounting policy in the Province's jointly sponsored pension plans.

³ Teachers' Pension Plan expense is included in Other programs. In the Consolidated Financial Statements, this expense item appears under the Ministry of Education. Schedule 4 to the financial statements provides details.

⁴ The 2015 Budget included a Program Review Savings Target of \$490 million and Year End Savings of \$1.0 billion.

Revenue

Comparison to the 2015 Budget plan

In the 2015 calendar year, Ontario's real GDP grew by a solid 2.6 per cent, driven by a boost from exports, business investments and sustained growth in household spending. Growth was very close to the 2.7 per cent forecast in the 2015 Budget.

The robust growth was supported by solid economic expansion in the United States and favourable shifts in key external factors, including reduced oil prices, a more competitive Canadian dollar and low interest rates.

Revenues for 2015–16 came in at \$128.4 billion, or 3.2 per cent higher than forecast in the 2015 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 14:

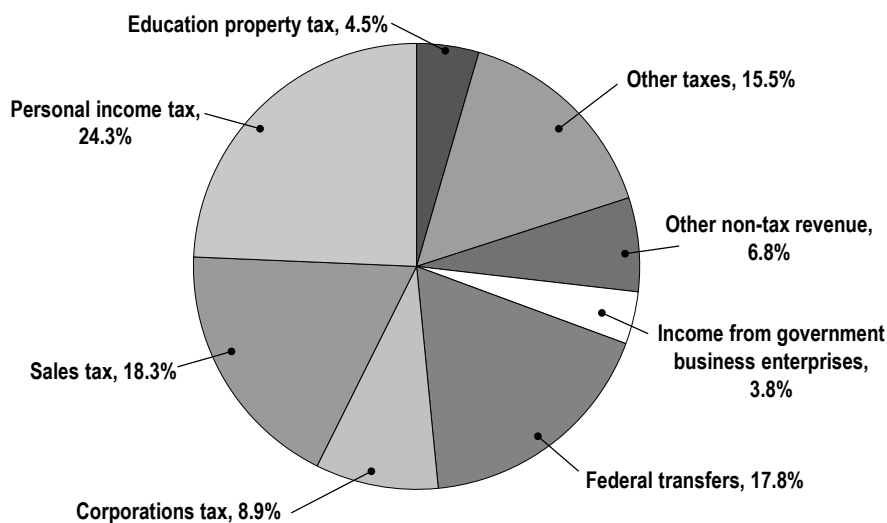
- Taxation revenues were \$1.7 billion, or 2.0 per cent higher than projected in the 2015 Budget. Personal income tax revenues were \$0.8 billion higher, reflecting stronger-than-projected 2015 tax assessments. The strong housing market in 2015 contributed to a \$0.8 billion increase in combined sales tax and land transfer tax revenues.
- Income from GBEs was \$0.6 billion higher, reflecting higher-than-projected returns from Ontario Power Generation Inc., the Ontario Lottery and Gaming Corporation and the Liquor Control Board of Ontario.
- Other non-tax revenues were \$0.3 billion higher on a net basis, mainly reflecting higher recoveries of prior year expenditures and higher fiscally neutral Power Supply Contract Recoveries.

Another factor was an increase from plan of \$1.5 billion in net revenues arising from the completion of the first phase of broadening Hydro One ownership.

Transfers from the Government of Canada were close to the 2015 Budget estimate.

2015–16 revenue by source (\$128.4 billion)

Chart 1



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

Comparison to prior year and earlier years

Total revenues were up \$9.8 billion, or 8.3 per cent, from the previous year.

Excluding the impacts of the sale of Hydro One shares, as discussed below:

- Taxation revenues grew by \$6.8 billion, or 8.3 per cent, reflecting economic growth, including a strong 2015 housing market. Prior year adjustments that lowered 2014–15 corporations tax revenues and boosted 2015–16 Harmonized Sales Tax (HST) revenues also contributed to stronger year-over-year growth.
- Net income from GBEs declined in 2015–16 by \$0.2 billion, mainly due to lower net income from Ontario Power Generation after a one-time gain from 2014–15. This was partially offset by higher net income growth from the Ontario Lottery and Gaming Corporation and the Liquor Control Board of Ontario.

Higher net revenues from asset optimization arising from the first phase of broadening Hydro One ownership accounted for \$2.0 billion of the increase in Provincial revenues.

Higher transfers under the Canada Health Transfer, Canada Social Transfer and Equalization programs accounted for most of the \$1.2 billion year-over-year increase in Government of Canada transfers.

Broadening Hydro One ownership

In November 2015, the Province completed the first phase of its plan to broaden Hydro One ownership. It sold approximately 16 per cent of the Province's outstanding Hydro One common shares at a price of \$20.50 per share, through an IPO and through related share sales to electricity sector union trusts. As a result, as at March 31, 2016, the Province owned about 84 per cent of the outstanding common shares in Hydro One.

The Province reported a gain of \$0.8 billion from the sale of Hydro One shares as well as a deferred gain of \$48 million in connection with sales to electricity sector union trusts.

The Hydro One IPO had additional impacts. Prior to the IPO, Hydro One was exempt from taxation under the federal *Income Tax Act* and the provincial *Taxation Act, 2007*, and instead made payments in lieu of corporate taxes (corporate PILs) to the Province.

Hydro One's tax-exempt status ended as a result of the IPO, and it exited the corporate PILs regime to become subject to federal and provincial taxes. Immediately before that occurred, the entity was deemed to have disposed of its assets for proceeds equal to the assets' fair market value.

As a result of this deemed disposition, before exiting the corporate PILs regime Hydro One had to make a payment to the Province through the Ontario Electricity Financial Corporation under the *Electricity Act, 1998*, related to the income and capital gains arising from the difference between the assets' fair value and tax value. This one-time payment to the Province, referred to as the departure tax, was \$2.6 billion. Hydro One also paid the Province \$0.2 billion in additional corporate PILs in connection with leaving the corporate PILs regime.

These one-time payments did not affect the Province's annual deficit, as the additional revenue was offset by an equal reduction in Hydro One's net income, which is consolidated in the Province's financial statements. The Province continues to consolidate Hydro One according to its proportionate share ownership.

Hydro One is now subject to corporate income taxes. The transition into the corporate income tax regime also resulted in Hydro One recognizing a deferred tax recovery based on the fair market value of its assets that increased the Province's reported revenues by \$2.4 billion. The deferred tax asset reflects the fact that cash taxes payable by Hydro One, including those payable to the Province, will be reduced for some period into the future.

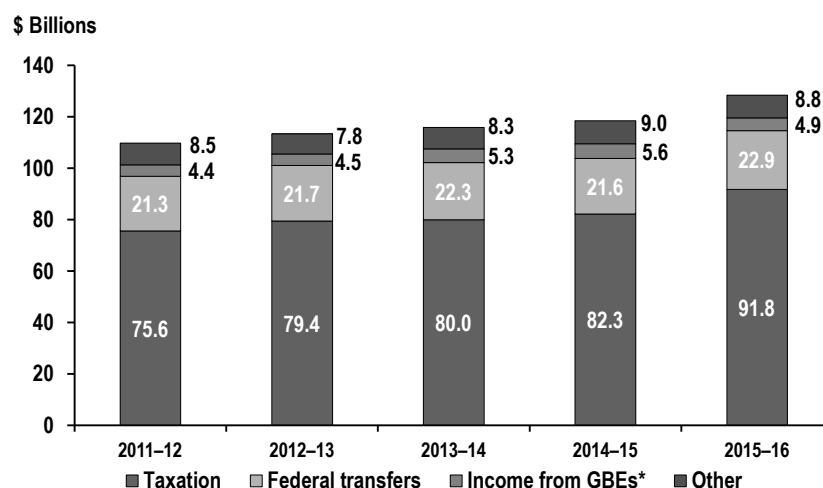
Under the *Trillium Trust Act, 2014*, net revenue gains from the disposition of Hydro One shares are allocated to the Trillium Trust. See "Transparency and Accountability" on page 41 and Volume 1 of the Public Accounts for more details.

Revenue trend

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

Between 2011–12 and 2015–16, taxation revenue grew at an annual average rate of 5.0 per cent, higher than the average annual nominal GDP growth of 3.2 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 2011–12 and 2015–16 reflects a growing economy and the impact of tax measures, as well as measures aimed at tax fairness and addressing the underground economy.

Other taxation revenues increased significantly in 2015–16 compared to the prior year. The increase largely reflects one-time payments in lieu of taxes from Hydro One associated with the Hydro One IPO. This transition resulted in a one-time \$2.6 billion departure tax payment in addition to \$0.2 billion in one-time payments in lieu of taxes from Hydro One to the Province. These one-time payments were revenue neutral to the Province, as they also reduced the Province's revenues from Hydro One's net income by an equal amount. The Province's relative share of Hydro One's net income is reported in the consolidated statements as income from GBEs.

Federal government transfers

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 2011–12 and 2015–16, Government of Canada transfers grew at an annual average rate of 1.8 per cent. Higher entitlements under the Canada Health Transfer, Canada Social Transfer and Equalization payments were partially offset by several time-limited transfers that wound down over that time period.

Income from government business enterprises

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).

After growing between 2011–12 and 2014–15, net income from GBEs declined in 2015–16. This was mainly due to the impact to Hydro One's net income from the one-time, final payments in lieu of taxes to the Province triggered by the Hydro One IPO.

Other non-tax revenues

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 moderately, at an annual average rate of 1.0 per cent, between 2011–12 and 2015–16. Two major factors were responsible for most of the growth in revenues:

- Increases in licensing and vehicle validation fees to maintain and expand provincial roads and highways; and
- The Province's asset-optimization strategy, particularly the gain on the sale and redemption of General Motors shares in 2013–14 and 2014–15 and the gain on the sale of Hydro One common shares in 2015–16.

These gains were partially offset by lower non-tax revenues from the electricity sector.

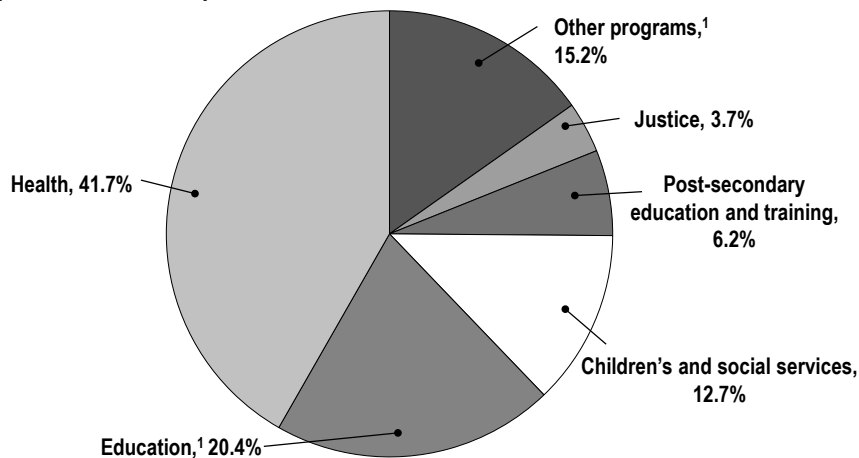
Expense

Comparison to the 2015 Budget plan

Total expense in 2015–16 was \$133.4 billion, which was higher than forecast in the 2015 Budget plan. Program spending was \$122.4 billion, up by \$1.9 billion from a planned spending of \$120.5 billion. Spending in the health, children's and social services, justice sectors, as well as other programs, was higher than planned (see Table 2). In addition, the change in accounting for pension assets which is reported under other program expense, resulted in an overspending of \$1.5 billion over plan. See Chart 3 for a breakdown of program expense by sector.

2015–16 program expense by sector (\$122.4 billion)

Chart 3



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

¹ Teachers' Pension Plan is included in Other programs. Other programs expense includes \$1.5B due to a change in the Province's accounting policy for jointly sponsored pension plans.

Total program spending was **\$1.9 billion** higher than the Budget plan, resulting in actual program expense of **\$122.4 billion**. The increases were attributable to:

- Health sector expense that was \$294 million, or about 0.6 per cent, above plan. Higher spending resulted from increased drug costs as well as higher hospital sector expense, which was partially offset by underspending in agencies.
- Children's and social services sector expense that was \$124 million higher than planned, due mainly to additional spending to address demand for the Ontario Disability Support Program and the cost of prescription drugs for social assistance recipients.
- Justice sector expense increases of \$120 million, mainly due to settlements under the *Proceedings Against the Crown Act* and higher-than-expected bad debt provisions related to unpaid fines.
- Other programs expense was \$1.8 billion higher than expected, mainly due to the change in accounting treatment for jointly sponsored pension plans, higher-than-anticipated expense for the Ontario Production Services Tax Credit and costs related to the Hydro One IPO.

Increases in these sectors and programs were partially offset by:

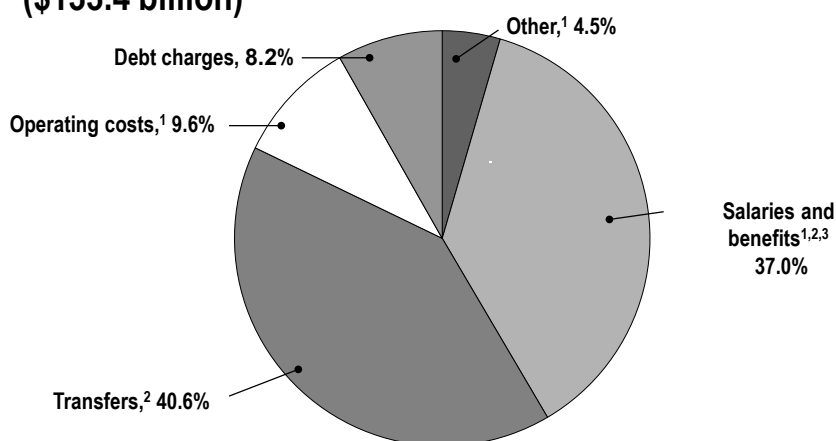
- Education sector expense that was \$233 million lower than expected, due in part to a higher share of funding spent on capital projects that are capitalized and amortized instead of expensed, higher-than-forecasted revenues from education development charges and slightly lower-than-projected enrolment.

- Post-secondary and training sector expense that was \$176 million lower than expected, mainly due to lower spending on post-secondary operating grants and lower student financial assistance as a result of lower-than-forecast enrolment. As well, spending on employment and training programs was below plan, partially offset by higher expense on tax credits to employers to support training.

As noted in the footnote to Table 2, the 2015 Budget included two savings targets that together totaled \$1.49 billion as part of other programs expense. Because savings were achieved across government, the targets were reallocated to the ministries that achieved savings – notably in both the education and post-secondary and training sectors, as highlighted above. In the year ended March 31, 2016, not all of the expected savings were achieved, which are reflected in higher-than-planned expense. **These savings were offset by the impact of the change in accounting policy for jointly sponsored pension plans which increased other program expense by \$1.5 billion for the year.**

**2015–16 spending by type of expense
(\$133.4 billion)**

Chart 4



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

¹ Salaries and benefits, Operating costs and Other include consolidated BPS organizations and are net of third-party revenues from the BPS organizations. Information on BPS results can be found in Schedule 10 of the Consolidated Financial Statements.

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.

³ Salaries and benefits expense includes \$1.5B due to a change in the Province's accounting policy for jointly sponsored pension plans.

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

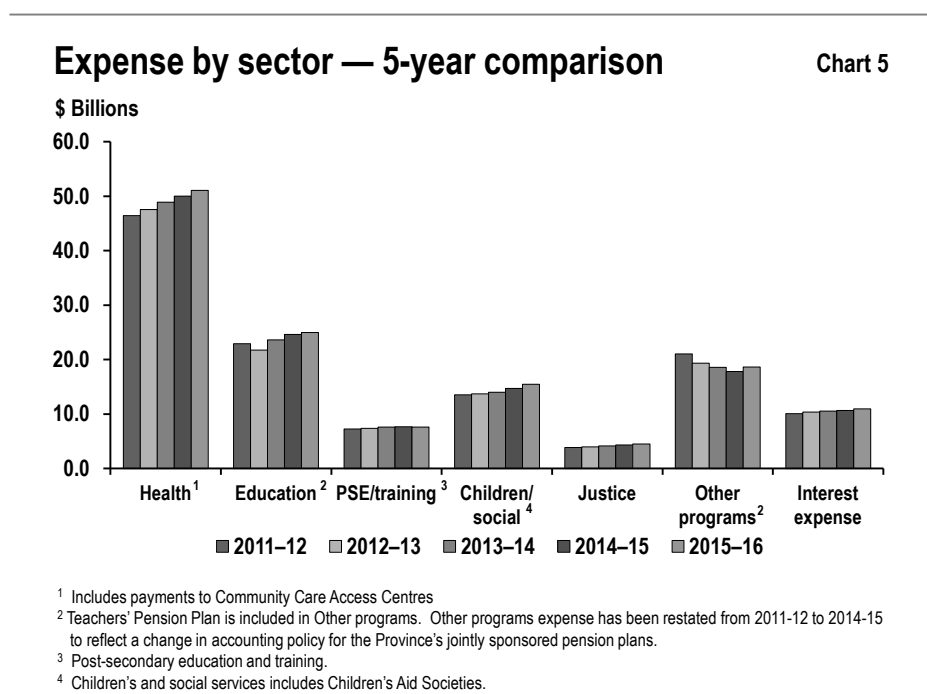
The transfers category reflects payments to a variety of third parties, mainly in the public sector, to support the delivery of public services. These third parties include, for example, child care providers, social service agencies and health care professionals. As service providers, a large share of the spending of these third parties typically goes to salaries and benefits.

Comparison to prior year and earlier years

Year-over-year, program spending grew by **2.7** per cent in 2015–16.

Health care represents the largest share of government program spending. Transformation efforts to make the sector more effective and sustainable are vital to managing overall spending growth and to achieving better outcomes for patients in a better integrated system. These continuing efforts moderated the year-over-year growth in health sector spending to 2.1 per cent in 2015–16. Prior to this transformation, the sector had been experiencing an average annual growth rate of over 6.0 per cent.

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



- Health sector expense increased from \$46.5 billion in 2011–12 to \$51.1 billion in 2015–16, or on average by 2.4 per cent per year between 2011–12 and 2015–16. These increases are due in part to increasing demands for health care services from an aging and growing population, along with other factors. Increases also include new investments in home and community care as well as specialized services such as cancer care. Expense increases in the health sector have been moderated by ongoing transformation of the sector to focus on patients while reducing costs such as the prices of generic prescription drugs.
- Education sector expense increased from \$22.9 billion in 2011–12 to \$25.0 billion in 2015–16, or on average by 2.2 per cent per year between 2011–12 and 2015–16. The increase is mainly due to the introduction of full-day kindergarten, which has been made available to every four- and five-year-old in Ontario since September 2014. Expense was lower in 2012–13 due to the impact of \$1.3 billion in

one-time savings from reducing liabilities carried by school boards for sick-day banking and retirement gratuities.

- Post-secondary education and training sector expense increased from \$7.3 billion in 2011–12 to \$7.6 billion in 2015–16, or on average by 1.3 per cent per year between 2011–12 and 2015–16. The increase is mainly due to continued funding to support enrolment growth in post-secondary institutions, growth in student financial assistance programs and support for employment and training programs.
- Children’s and social services sector expense increased from \$13.5 billion in 2011–12 to \$15.5 billion in 2015–16, or on average by 3.5 per cent per year between 2011–12 and 2015–16. This increase reflects annual social assistance rate increases, caseload growth in the Ontario Disability Support Program, and investments in developmental services and the Ontario Child Benefit.
- Justice sector expense increased from \$3.9 billion in 2011–12 to \$4.5 billion in 2015–16, or on average by 4.1 per cent per year between 2011–12 and 2015–16. These increases are mainly due to the provincial upload of court security costs from municipalities, costs incurred mainly in 2015–16 for the security services for the 2015 Pan/Parapan American Games and improved access to legal aid for low-income Ontarians.
- Other programs expense decreased from \$21.0 billion in 2011–12 to \$18.6 billion in 2015–16, or on average by 3.0 per cent per year between 2011–12 and 2015–16. These decreases are mainly due to the end of time-limited funding related to Harmonized Sales Tax transitional support and other savings. This is partially offset by increased investments in transit, transportation and community infrastructure, investments in affordable housing programs, support for the 2015 Pan/Parapan American Games and the impact of a change in accounting policy for pension plans as described in Note 18 to the Consolidated Financial Statements.

Interest costs

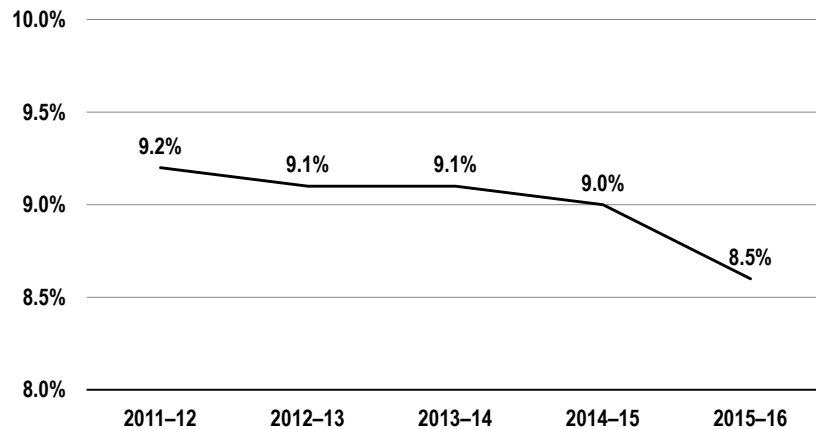
Interest on debt expense was \$0.4 billion below plan in 2015–16, mainly as a result of lower-than-forecast interest rates, the lower-than-planned deficit and cost-effective borrowing and debt management.

Interest expense grew from \$10.6 billion in 2014–15 to \$11.0 billion in 2015–16 (see Table 2).

Between 2011–12 and 2015–16, interest expense has trended upward, 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



Statement of Financial Position analysis

Financial assets

Financial Assets (\$ Billions)					Table 3
	2015–16 Actual	% of Total	2014–15 Actual	% of Total	Variance Increase (Decrease)
Cash and cash equivalents	13.6	16.3%	15.2	18.4%	(1.6)
Investments	21.8	26.1%	20.4	24.7%	1.4
Accounts receivable	11.1	13.3%	10.3	12.5%	0.8
Loans receivable	11.5	13.8%	11.1	13.5%	0.4
Other assets	1.9	2.3%	2.0	2.4%	(0.1)
Investment in government business enterprises	23.6	28.2%	23.5	28.5%	0.1
Total Financial Assets	83.5	100.0%	82.5	100.0%	1.0

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 government business enterprises.

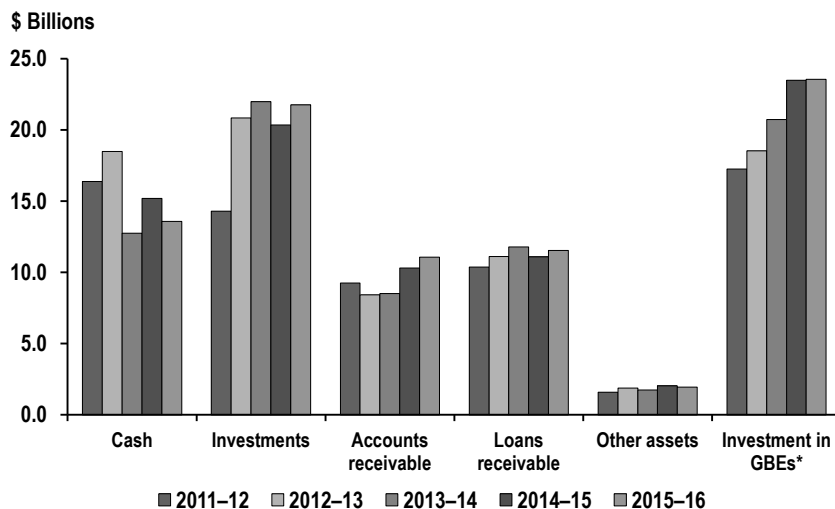
The Province's financial assets increased by \$1.0 billion in 2015–16 over the prior year to \$83.5 billion. This increase was mainly due to a \$1.4 billion increase in investments and a \$0.8 billion increase in accounts receivable, which was offset by a \$1.6 billion decrease in cash and cash equivalents (see Table 3):

- Investments went up by \$1.4 billion, mainly due to the pre-borrowing at year-end for 2016–17 spending requirements.
- Accounts receivable, which shows amounts owing to the Province by third parties, increased by \$0.8 billion, mainly due to an increase in tax receivable at year-end.
- Cash and cash equivalents, which are financial instruments that can be easily converted to cash, decreased by \$1.6 billion as a result of operating, investing, capital and financing activities.

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 a steady gain in investment in GBEs from 2011–12 to 2014–15, reflecting an increase in net assets reported for these entities. The same upward trend did not continue in 2015–16, mainly due to the Province’s decreased ownership interest in Hydro One.

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.

Tangible capital assets

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

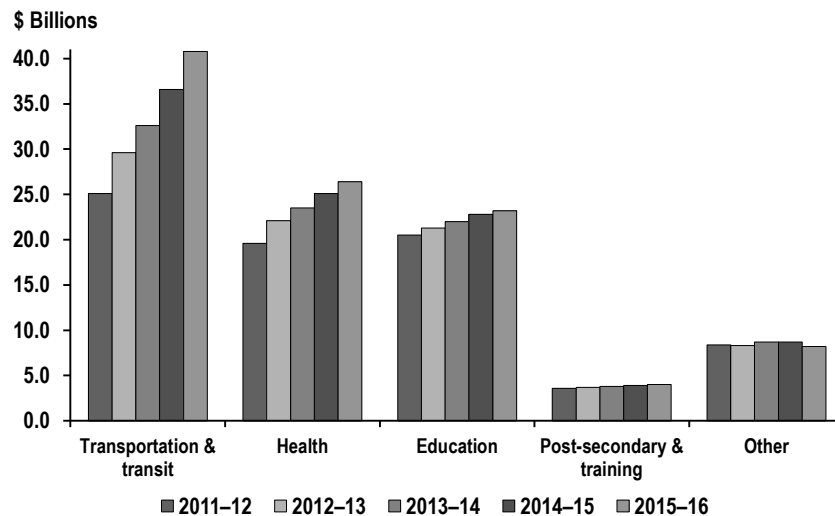
Tangible capital assets owned by the Province and its consolidated entities represent the largest component of the Province's infrastructure investments. These assets include those it owns directly, such as provincial highways, as well as the assets of school boards, hospitals, colleges and agencies 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 \$102.5 billion in 2015–16, increasing by \$5.4 billion over the prior year. Buildings, including schools, hospitals and college facilities, made up the single largest share, at \$53.4 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 26.

Growth in the net book value of capital assets has averaged 7.4 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.

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

Chart 8



Infrastructure expenditures

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 2015–16 was \$12.8 billion (see Table 4). This included \$10.4 billion invested in assets owned by the Province and its consolidated entities, as discussed in “Tangible capital assets” on page 23, and \$2.4 billion provided to non-consolidated partners such as universities and municipalities, and other infrastructure expenditures. The total was slightly less than the \$13.9 billion set out in the 2015 Budget plan because of lower-than-forecast construction activity for the period.

Infrastructure expenditures, 2015–16 ¹ (\$ Billions)			Table 4
Sector	Investment in Capital Assets ²	Transfers and Other Infrastructure Expenditures ³	Total Infrastructure Expenditures
Transportation and transit	5.7	0.6	6.3
Health	2.8	0.4	3.2
Education	1.5	0.0	1.6
Post-secondary and training	0.4	0.2	0.6
Other sectors ⁴	(0.1)	1.1	1.0
Totals⁵	10.4	2.4	12.8

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.

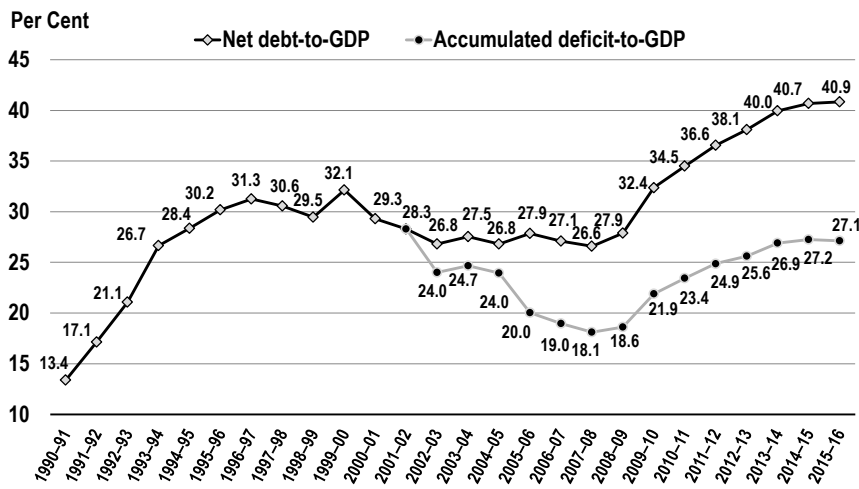
⁴ Includes government administration, natural resources, and culture and tourism sectors. A negative investment in capital assets is due to the transfer of Pan/Parapan American Games assets to third parties.

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

The difference between net debt and accumulated deficit is due to the Province's consistent investment in infrastructure, as reflected in the increase in the net book value of the Province's tangible capital assets (see Chart 9).

Net debt-to-GDP and accumulated deficit-to-GDP

Chart 9



Note: Historical net debt-to-GDP were revised to reflect historical GDP released by Statistics Canada in November 2015. Net debt has been restated to include broader public sector net debt, starting in 2005-06. Net debt and accumulated deficit has been restated from 2001-02 to 2014-15 to reflect a change in accounting policy for the Province's jointly sponsored pension plans.

Liabilities

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 pensions, owing to current and former employees (see Table 5). For purposes of the 2015-16 Public Accounts, the Province changed its accounting policy for its jointly sponsored pension plans which eliminated all of the accrued pension benefit assets related to its jointly sponsored pension plans which were previously reported on the Province's Statement of Financial Position. As a result of the change in accounting, \$10.6 billion of pension assets were eliminated from the Province's balance sheet as at March 31, 2016 and \$9.1 billion were eliminated retroactively from the Province's comparative balance sheet as of March 31, 2015.

Liabilities (\$ Billions)		Table 5			
	2015-16 Actual	% of Total	Restated 2014-15 Actual ¹	% of Total	Variance Increase (Decrease)
Accounts payable and accrued liabilities	19.4	5.0%	20.1	5.3%	(0.7)
Debt	327.4	84.2%	315.0	83.7%	12.5
Other long-term financing	14.1	3.6%	13.9	3.7%	0.2
Deferred revenue and capital contributions	10.8	2.8%	10.1	2.7%	0.7
Pensions and other employee future benefits liability	12.1	3.1%	12.3	3.3%	(0.2)
Other liabilities	4.9	1.3%	4.9	1.3%	0.0
Total Liabilities	388.7	100.0%	376.2	100.0%	12.5

Notes:

¹ 2014-15 actuals have been restated to reflect a change in accounting policy in the Province's jointly sponsored pension plans.

The difference between

Debt

Debt makes up the largest share of liabilities. Debt grew by \$12.4 billion in 2015–16 to \$327.4 billion by year-end, primarily to finance the operating deficit and to invest in infrastructure.

Net debt as at March 31, 2016, was \$305.2 billion, \$6.3 billion higher than forecast in the 2015 Budget. Excluding the impact of the change in Province's accounting policy for pensions, the net debt was \$4.3 billion lower than forecast in the 2015 Budget. The change in the pension accounting policy resulted in a write down of pension assets related to jointly sponsored pension plans of \$10.6 billion as of March 31, 2016.

Table 6 summarizes how the Province used its net new financing in 2015–16.

Use of new financing by the Province, 2015–16 (\$ Billions)	Table 6
Operating deficit and other transactions ¹	1.4
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	0.5
	12.6
Increase in other long-term financing ³	(0.2)
Net new financing	12.4

¹ The Province's operating deficit of \$5.0 billion was offset by a net \$3.6 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 \$32.1 billion in 2015–16. This yielded net new financing of \$12.4 billion after adjustments and repayment of \$21.9 billion in existing debt that matured.

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, see "Tangible capital assets" on page 23.

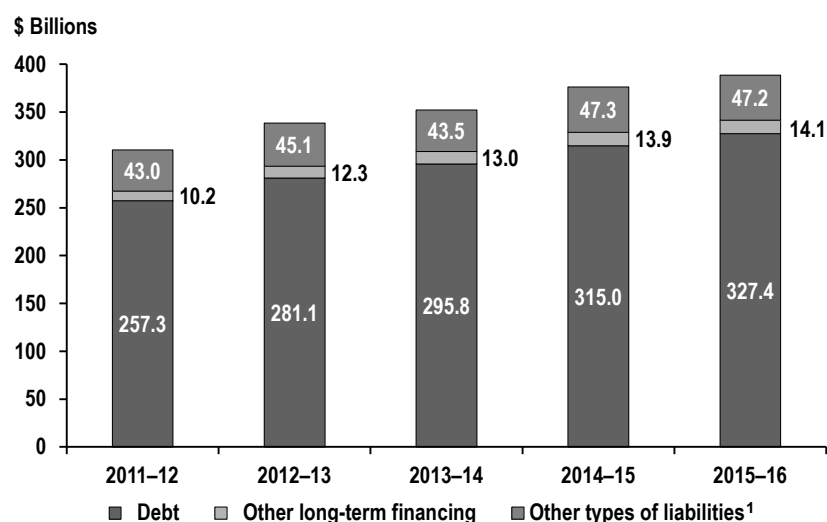
Other types of liabilities

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. This category decreased by \$0.2 billion in 2015–16 over the prior year, mainly due to net decrease in pensions and other employee future benefits liability after taking into account the in-year impact of change related to pension accounting on the Province's books of \$1.5 billion.

Chart 10 shows the recent trends in liabilities for the Province.

Liabilities — 5-year trend

Chart 10



¹ 2011-12 to 2014-15 has been restated to reflect a change in accounting policy for the Province's jointly sponsored pension plans. Other types of liabilities increased by \$5.7 billion in 2011-12, \$7.1 billion in 2012-13, \$8.2 billion in 2013-14 and \$9.2 billion in 2014-15.

The trend in liabilities over the period between 2011–12 and 2015–16 shows public debt rising, mainly to fund capital investments and the annual deficit. The upward trend in other long-term financing indicates increased capital related activities through AFPs. Other types of liabilities, including accounts payable and deferred revenue, tend to be more variable, since they often reflect specific circumstances at year-end, such as accrued liabilities for goods and services.

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 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 75 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.

Ontario also sets out the possible impacts on tax revenue of actual growth in the economy and other parameters differing from the assumptions used in the Budget. These sensitivities appear on pages 273–277 of the 2015 Budget, available at: http://www.fin.gov.on.ca/en/budget/ontariobudgets/2015/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 2015 Budget, these totaled \$650 million: \$550 million for operating risks and \$100 million for capital. Funds were used to support initiatives such as emergency forest firefighting and supporting social assistance recipients.

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 13 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 made by CPA Canada 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 2015 Budget plan included a \$1.0 billion reserve for 2015–16. Excluding this reserve, the 2015 Budget projected a deficit of \$7.5 billion. Because the reserve is a forecast provision, and the fiscal results for 2015–16 are now finalized, a reserve is no longer included in the Province's financial statements. The final deficit for the 2015–16 fiscal year is \$5.0 billion, a \$3.5 billion improvement compared with the 2015 Budget projection of \$8.5 billion, which included the reserve.

Key Financial Ratios

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.

Key Financial Ratios <i>as at the end of the fiscal period</i>		Table 7				
		2011-12	2012-13	2013-14	2014-15	2015-16
Sustainability	Net Debt to GDP (%)	36.6%	38.1%	40.0%	40.7%	40.9%
	Net Debt to Total Revenue (%)	219.8%	228.6%	239.0%	247.8%	237.8%
	Net Debt per Capita (\$)	\$ 18,051	\$ 19,195	\$ 20,316	\$ 21,359	\$ 21,927
Flexibility	Debt Charges to Total Revenue (%)	9.2%	9.1%	9.1%	9.0%	8.5%
	Own-Source Revenue to GDP (%)	13.4%	13.5%	13.5%	13.4%	14.1%
Vulnerability	Federal Transfers to Total Revenue (%)	19.4%	19.1%	19.2%	18.2%	17.8%
	Foreign Currency Debt to Total Debt (%)	25.4%	24.3%	22.9%	20.9%	18.8%
	Unhedged Foreign Currency Debt (%)	0.9%	0.7%	0.5%	0.3%	0.3%

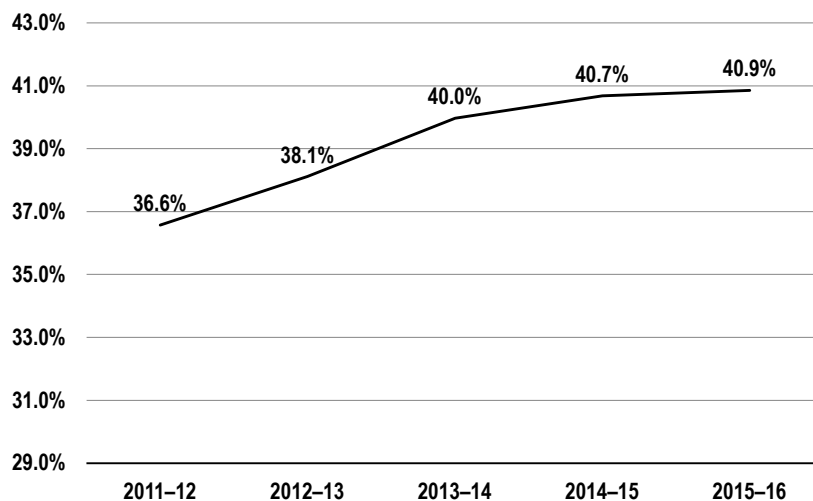
Measures of sustainability

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 40.9 per cent at the end of fiscal year 2015–16. In 2011–12, it was 36.6 per cent. Over this period, the deficit and other adjustments such as those arising from the change in the Province's accounting policy for pensions contributed approximately 60 per cent of the increase in net debt, with investments in capital assets accounting for most of the balance. Between 2011–12 and 2014–15, because net debt grew more quickly than GDP, the ratio increased from 36.6 per cent to 40.7 per cent. There was a slight increase to the ratio from 2014–15 to 2015–16, since net debt and GDP grew approximately at the same rate. The ratios for this trend analysis have all increased due to the impact of restated prior year's results reflecting the elimination of accrued benefit pension assets from the Province's balance sheet to reflect a change in the Province's accounting policy for pensions in the 2015-16 Public Accounts. (See Chart 11.)

Net debt-to-GDP — 5-year trend

Chart 11



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 \$137 billion in capital over 10 years. Those capital investments will be amortized over a period of time that corresponds to the useful life of these 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 2011–12, the ratio was 219.8 per cent. It rose to 247.8 per cent in 2014–15, as net debt grew more quickly than revenue, including the impact of the Province's change in accounting policy for pensions. However, the ratio fell to 237.8 per cent in 2015–16, 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 9.2 per cent in 2011–12 to the current level of 8.5 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 8 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 13.4 per cent in 2014–15 to 14.1 per cent in 2015–16 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 19.4 per cent, in 2011–12. The lowest was 17.8 per cent, in 2015–16. 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.

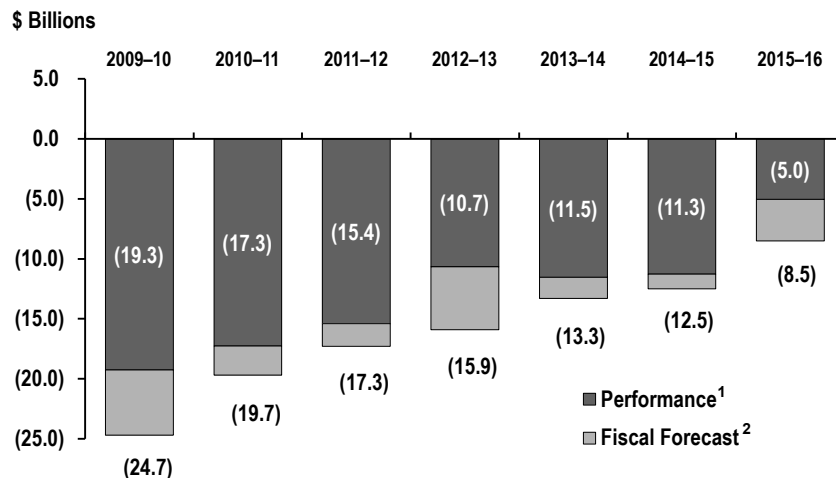
Foreign currency debt to total debt is a measure of vulnerability to changes in foreign currency exchange rates. Accessing borrowing opportunities in foreign currencies allows Ontario to diversify its investor base and take advantage of lower borrowing costs. It also ensures that the Province will continue 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 0.9 per cent of debt issued for provincial purposes in 2011–12, declining to 0.3 per cent in 2015–16.

Responsible Fiscal Management

The 2015–16 annual deficit of \$5.0 billion was an improvement of \$3.5 billion from the \$8.5 billion deficit target laid out in the 2015 Budget (see Chart 12). As a result, Ontario has achieved better-than-planned results in each of the last seven years. By continuing to overachieve on its fiscal targets, the government's accumulated deficit is \$21.5 billion lower than it otherwise would have been.

Fiscal balance

Chart 12



¹ Represents actual results for 2009–10 to 2015–16. 2010–11 to 2014–15 actuals have been restated to reflect a change in accounting policy for the Province's jointly sponsored pension plans. The deficit increased by \$3.2 billion in 2010–11, \$2.4 billion in 2011–10, \$1.4 billion in 2011–12, \$1.1 billion in 2012–13 and \$1 billion in 2014–15 due to the change in accounting policy.

² Forecast for 2009–10 is based on the 2009 Ontario Economic Outlook and Fiscal Review; 2010–11 to 2013–14 is based on the 2010 Budget; 2014–15 is based on the 2014 Budget; and 2015–16 is based on the 2015 Budget.

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.

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 2016 Budget, Ontario has generated over \$930 million since 2013–14 through ongoing enhanced compliance-focused measures.

Government action to manage growth in spending has achieved results. Program expense fell to 16.4 per cent of GDP in 2015–16, lower than the 17.7 per cent reached in 2009–10.

Ontario also consistently has the lowest per-capita program spending among all Canadian provinces, and is projected to remain the lowest in 2015–16.

Program Review, Renewal and Transformation

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 \$490 million program review savings target for 2015–16. To meet the target, the government has 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.

Managing compensation

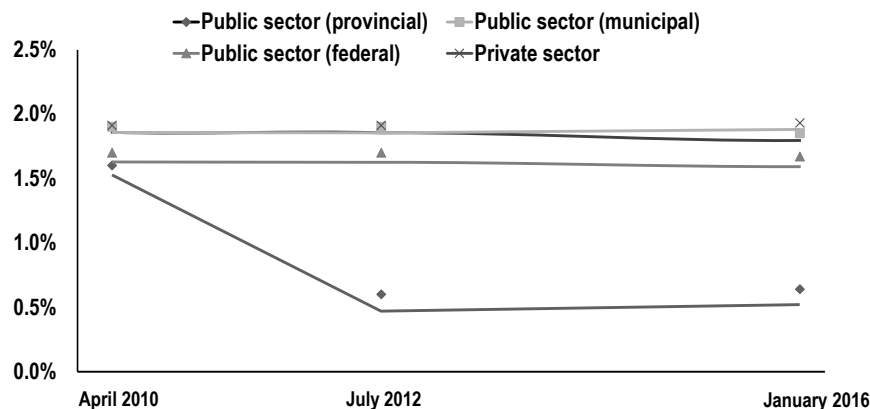
With a significant share of resources going to salaries and benefits, managing compensation costs is critical to balancing the budget.

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 13 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.

Ontario public/private wage settlement trends

Chart 13



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 \$11.0 billion reported for 2015–16 was an improvement of \$0.4 billion over the forecast in the 2015 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.

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.

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.

Health care

The government is committed to transforming Ontario's health care system to become more patient-centred and focused on better access to care, quality and value. Ontario's *Patients First: Action Plan for Health Care*, launched in 2015, aims to achieve four goals: increase access to health care, improve care coordination, better inform Ontarians to support their health care decisions, and protect patients and the Province's health care system for the future.

In 2015–16, the Province made progress toward all four goals.

- **Access:** The Province has continued to reduce wait times for key service areas such as surgeries and diagnostic imaging.
- **Connect:** To improve access to integrated primary, home and community care, the government has begun planning to implement an expanded role for the Province's 14 Local Health Integration Networks, pending legislation. Ontario has increased investment in home and community care by 5 per cent annually, amounting to \$250 million in 2015–16, for a total of \$750 million over three years. It has also increased the hourly wages of publicly funded personal support workers caring for patients at home and in the community by \$1.50 per hour in 2015–16 to at least \$15.50 per hour, in the second of three annual increases totaling up to \$4.00 over three years to at least \$16.50 per hour by April 1, 2016.
- **Inform:** The government passed the *Healthy Menu Choices Act, 2015*, requiring calorie information to be posted in numerous food service locations, to inform Ontarians on healthier food choices. Ontario has also passed regulations to help reduce smoking rates by making it harder for youth to obtain tobacco products and by banning the sale of electronic cigarettes to anyone under the age of 19.
- **Protect:** Ontario is funding a nasal spray flu vaccine to better protect young children against the flu, made prescription refills more convenient and less expensive for people with chronic conditions, and helped ensure Ontarians get good value for drug costs now and in the future through the efforts of the pan-Canadian Pharmaceutical Alliance (pCPA). The government appointed Ontario's first ever Patient Ombudsman to help address patients' otherwise unresolved concerns about their care by a health organization.

Education

Ontario's publicly funded early years and education system is focused on ensuring Ontarians have the education and skills needed to lead in the global economy.

Outcomes reported in 2015–16 included the following:

- More high school students graduating. In 2015, 85.5 per cent of students graduated from high school, compared to 68 per cent in 2004. This is an increase of more than 17 percentage points.
- Improving child care. Through the introduction of the *Child Care and Early Years Act, 2014*, which came into effect in August 2015, the government is modernizing the legislative and regulatory framework for child care.

Post-secondary education and training

Post-secondary education and training play a critical role in preparing people for the workforce. This will be increasingly important as Ontario moves further toward a more knowledge-based economy. Besides having better employment prospects, Ontarians with higher levels of education and skills earn higher wages and have better health and longevity.

Outcomes reported in 2015–16 included:

- Helping people in Ontario achieve higher levels of education. In 2015, the most recent year for which information is available, 67 per cent of adults in Ontario aged 25 to 64 had a post-secondary degree, diploma or certificate. This is higher than the average of any country in the Organisation for Economic Co-operation and Development. This positions Ontario well to meet or exceed its 70 per cent target by 2020.
- Investments in student financial assistance between 2009–10 and 2014–15 resulted in a 50 per cent increase in the number of students qualifying for aid (approximately 125,000 additional students). During this same time period, enrolment increased by 8 per cent. Rates of participation in post-secondary education among Ontario's young people are higher than for the rest of Canada.

Condition of provincial tangible capital assets

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.
- 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

Recent developments in public sector accounting standards

The Province's financial reports are 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 the federal, territorial and other provincial 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, which are integral to achieving the Province's transparency and accountability reporting objectives. As described in Note 16 to the Consolidated Financial Statements, additional future changes in accounting standards may affect how assets, liabilities, revenues and expenses are reported in the Province's future financial reports.

The Province will continue to work with standard setters, other jurisdictions, the Auditor General's Office and the accounting community on matters related to transparency and accountability in public sector financial reporting.

The C.D. Howe Institute Fiscal Accountability Report

Each year, the C.D. Howe Institute, an independent research organization that focuses on support for economically sound public policies, assesses the fiscal planning and reporting of governments in Canada.

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 institute has again recognized that Ontario's practices, which align the Budget, Estimates and financial reporting, demonstrate a high level of accountability and transparency.

In the most recent C.D. Howe report on Canadian provinces, territories and the federal government, Ontario also scored consistently highly on the general accuracy of its spending plans and for not over-estimating its revenue forecast. See https://www.cdhowe.org/sites/default/files/attachments/research_papers/mixed/commentary_448.pdf.

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 \$1.35 billion was allocated to the Trillium Trust as at March 31, 2016, in relation to the sale and redemption of the Province's shares in General Motors in earlier years.

Subsequent to year end, 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.

Data visualization

Last year, the government created its first interactive data visualization tool to graphically present details on the information contained in Volume 1 of the 2014–15 Public Accounts. This year, additional data visualization tools and data tables have been created and are now available on the Ontario.ca website. The government has also increased the number of Public Accounts open data sets available for download from two to seven.