FAO’s 2017 Fall Fiscal Outlook – OB Summary

ISSUE

The Financial Accountability Office is set to release its ‘Fall Economic and Fiscal Outlook’ report. This note summarizes the fiscal chapter of the report.

TOP MESSAGES

- I would like to thank the Financial Accountability Officer (FAO) for releasing his fall economic and fiscal outlook for Ontario. We value the FAO’s independent assessment and projections of the province’s fiscal plan.
- As outlined in the 2017 Ontario Economic Outlook and Fiscal Review, the government is projecting a balanced budget for 2017–18 and to remain balanced in 2018–19 and 2019–20.
- The FAO report also projects a balanced budget for Ontario this year.
- The government has a strong track record of beating its fiscal targets. In fact, the Public Accounts of Ontario reported that the 2016–17 deficit was $1.0 billion, beating our annual deficit target again, for the eighth year in a row.
- The 2017 Ontario Economic Outlook and Fiscal Review builds on the government’s track record of fiscal management that has resulted in $29 billion in accumulated deficits being avoided over the past seven years, relative to the 2010 Budget forecast.
- We are also targeting a net debt-to-GDP ratio of 35 per cent by 2023–24 and reducing Ontario’s net debt-to-GDP ratio to its pre-recession level of 27 per cent, with current projections showing that this will be achieved by 2029–30.
- Since 2014, Ontario’s real GDP growth has strengthened, positioning Ontario as a growth leader, not only in Canada, but among G7 countries. In fact, over the 2014-17 period, Ontario’s real GDP growth is on pace to exceed that of all G7 countries.
- Private-sector economists are projecting continued growth for Ontario over the forecast horizon; the FAO’s real GDP projections are aligned with the 2017 Fall Economic Statement over the 2017 to 2020 period.
- This shows that our plan to make strategic investments in Ontario to grow the economy is working.
- A balanced budget is providing the Province the fiscal flexibility to invest more in health care, education, support for seniors and small businesses and other public services that matter most to Ontario families. It also adds stability to Ontario’s finances and positions the government to better respond to demographic challenges and unexpected global economic shocks that the province will face over the next decade.

Commented [CV1]: Suggest we need to qualify this – perhaps add “, based on the governments accounting positions on net pension assets and the fair hydro plan.”

KEY POINTS

Fiscal Outlook

- The FAO is projecting a budget deficit of $3.9 billion in 2017–18 using the **Auditor General's recommended accounting treatment for both the Fair Hydro Plan and the net pension assets of jointly sponsored pension plans.** In the absence of any fiscal policy changes this grows steadily to $9.6 billion in 2021-22.
- Under the **government's accounting presentation (excluding the AG's recommendations)**, the FAO projects a small surplus for 2017–18 of $0.3 billion (excluding the reserve) and a return to deficits beyond 2017–18 driven by revenue factors - loss of temporary revenues combined with more moderate tax revenue growth.
- The FAO suggests that by not adopting the AG's recommended accounting presentation, the 2017 Budget and the 2017 FES have reduced transparency and clarity of Ontario's fiscal position and Ontario will continue to receive qualified opinions from the AG on its Public Accounts.

Budget Balance - FAO's Fiscal Outlook ($ Billions)	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
AG Presentation	-5.0	-2.5	-3.9	-7.2	-7.9	-8.9	-9.6
Government Presentation	-3.5	-1.0	0.3	-1.9	-2.0	-2.6	-3.5
2017 FES -- Excluding Reserve	-3.5	-1.0	0.5	0.5	0.8	N/A	N/A

Revenue Outlook

- Using the AG presentation, the FAO is projecting average annual revenue growth of 2.6 per cent from 2016-17 to 2019-20 as compared with the government's projections of 4.0 per cent. The main drivers are:
    - The FAO projections for taxation revenues are $2.9 billion lower by 2019-20 than the projections in the 2017 FES due to lower projected growth in household spending, labour income and corporate profits.
    - In addition, the FAO continues to highlight a number of one-time 2017-18 revenues, including: increase to sales and rentals from sale of final tranche of H1, higher federal transfers for infrastructure (PTIF), one-time boost from extra Cap and Trade auction. Taken together the FAO estimates that these amount to $4.5 billion in additional one-time revenues in 2017-18.

Commented [CV2]: Report says $4 billion

Commented [CV3]: $9.8 based on report

Commented [CV4]: The numbers in the table don't agree with the report

Commented [CV5]: Neither of the accounting issues impacts revenue, so why is the AG's position being mentioned here?

Commented [DM(6]: To be updated – 3.3% (TBC) – MOF to confirm

Expense Outlook

- From 2017–18 to 2019–20 the FAO's outlook adopts the government's 2017 FES projections for program spending, **adjusted to reflect the AG's recommended accounting presentation for jointly sponsored pension plans and the Fair Hydro Plan.** Beyond 2019–20 the FAO projects program spending will grow faster -- at an average annual rate of 4.1 per cent – due to population pressures.

Borrowing and Net Debt

- Using the **government's accounting presentation** net debt-to-GDP is expected to reach 38.4 per cent by 2019–20 and 38.6 per cent by 2021–22. This increases to 41.3 per cent by 2021–22 **under the AG's accounting presentation for jointly sponsored pension plans and the Fair Hydro Plan**.
    - The 2017 FES projected a net debt-to-GDP ratio of 37.0 per cent by 2019–20.

Comparison: 2017 Fall Economic Statement and the 2017 Fall FAO Fiscal Outlook										
								Avg. Annual Growth		
	Actual		Outlook					16-17	19-20	16-17
$ Billions	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**to 19-20**	**to 21-22**	**to 21-22**
2017 Fall Economic Statement										
Revenue*	136.1	140.7	150.1	153.6	158.2			4.0%		
Adjustment for Fair Hydro Plan	-	-	-	-	-					
Total Revenue	136.1	140.7	150.1	153.6	158.2			4.0%		
Expense										
Program Expense**	128.1	130.0	137.4	140.4	144.2			3.5%		
Adjustment for Pension Assets	-	-	-	-	-					
Interest on Debt	11.6	11.7	12.2	12.7	13.3			4.2%		
Total Expense	139.7	141.7	149.6	153.1	157.4			3.6%		
Surplus/(Deficit) Excl. Reserve	**(3.5)**	**(1.0)**	**0.5**	**0.5**	**0.8**					
Reserve	-	-	0.5	0.5	0.8					
Surplus/(Deficit)	**(3.5)**	**(1.0)**	**0.0**	**0.0**	**0.0**					
Net Debt	295.4	301.6	311.7	323.0	335.6					
Change - 2017 Fall Economic Statement to 2017 Fall FAO Fiscal Outlook										
Revenue	-	-	*(0.8)*	*(3.0)*	*(3.5)*					
Adjustment for Fair Hydro Plan	-	-	*(1.9)*	*(2.7)*	*(2.9)*					
Total Revenue	-	-	(2.7)	(5.7)	(6.4)					
Expense										
Program Expense	-	-	-	-	-					
Adjustment for Pension Assets	1.5	1.5	2.2	2.6	2.9					
Interest on Debt	-	-	*(0.4)*	*(0.6)*	*(0.7)*					
Total Expense	*1.5*	*1.5*	*1.8*	*2.0*	*2.3*					
Surplus/(Deficit) Excl. Reserve	***(1.5)***	***(1.5)***	***(4.4)***	***(7.7)***	***(8.7)***					
Reserve	-	-	*(0.5)*	*(0.5)*	*(0.8)*					
Surplus/(Deficit)	***(1.5)***	***(1.5)***	***(3.9)***	***(7.2)***	***(7.9)***					
Surplus/(Deficit) exc. Adj. for Fair Hydro Plan and Pension Assets	***(0.0)***	***(0.0)***	***0.3***	***(1.9)***	***(2.0)***					
Net Debt	*11.0*	*12.5*	*16.3*	*23.5*	*31.4*					
2017 Fall FAO Fiscal Outlook										
Revenue	136.1	140.7	149.3	150.6	154.7	160.7	166.9	3.2%	3.9%	3.5%
Adjustment for Fair Hydro Plan	-	-	(1.9)	(2.7)	(2.9)	(3.4)	(3.2)			
Total Revenue	136.1	140.7	147.4	147.9	151.8	157.3	163.7	2.6%	3.8%	3.1%
Expense										
Program Expense	128.1	130.0	137.4	140.4	144.2	150.1	156.6	3.5%	4.2%	3.8%
Adjustment for Pension Assets	1.5	1.5	2.2	2.6	2.9	2.9	2.9			
Interest on Debt	11.6	11.7	11.8	12.1	12.6	13.2	13.8	2.5%	4.7%	3.4%
Total Expense	141.2	143.2	151.4	155.1	159.7	166.2	173.3	6.0%	8.9%	7.2%
Surplus/(Deficit) Excl. Reserve	**(5.0)**	**(2.5)**	**(3.9)**	**(7.2)**	**(7.9)**	**(8.9)**	**(9.6)**			
Reserve	-	-	-	-	-	-	-			
Surplus/(Deficit) (AG Presentation)	**(5.0)**	**(2.5)**	**(3.9)**	**(7.2)**	**(7.9)**	**(8.9)**	**(9.6)**			
Surplus/(Deficit) exc. Adj. for Fair Hydro Plan and Pension Assets (Gov't presentation)	**(3.5)**	**(1.0)**	**0.3**	**(1.9)**	**(2.0)**	**(2.6)**	**(3.5)**			
Net Debt	306.4	314.1	328.0	346.5	367.0	385.7	403.1			
Note: Numbers may not align with report due to rounding.										

Commented [HS(7]: Last section, adjustment of pension assets showing as 2.9 in 2020-21, assuming this was flatlined from 2019-20 since no new pension estimates for that year available?